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Hodnocení finanční situace společnosti China Telecom

Evaluation of Financial Situation of China Telecom Company

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1. Introduction
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3. Characterization of the China Telecom Company
4. Evaluation of Financial Situation of the Company
5. Conclusion

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The declaration

"Herewith I declare that I elaborated the entire thesis, including all annexes independently."

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1 Introduction

Financial analysis is very important for a company. Why, there are several reasons for what. First of all, financial analysis is a process of evaluating the financial data about a company. We can understand the ability to grow of the company, the past development of the company, whether the company should be long-term holders of shares. Secondly, we will use many financial analysis methodology to analyze the cash flow, balance sheet and income statement. On the on hand, we analysis the financial condition about the China Telecom Corporation Limited, make people understand the financial situation about the company, on the other hand, people can know that the financial strategies in the past five years of the company.

The goal of the thesis is to analyze financial performance of China Telecom Corporation Limited on the basis of financial reports during 2009 to 2013.

In this thesis, we also will introduce the financial situation about the China Telecom Corporation Limited. This thesis includes five parts. The first part and last part are introduction and conclusion. In the second part we will describe of the financial analysis methodology, including common-size analysis, financial ratio analysis, Dupont analysis and influence quantification. The third part, we will introduce the China Telecom Corporation Limited and general information about the company, including the business of the company, the history of the company and so on. The fourth part is the key part of the thesis. We will evaluate the financial situation of the company, we will make financial ratio analysis, common-size analysis and so on, based on the annual financial reports during 2009 to 2013.

2 Description of the financial analysis methodology

In this chapter, we will introduce the meaning of the financial analysis and the goal of the financial analysis, and then we introduce the balance sheet, income statement and cash flow, and then we introduce financial analysis methodology, including common-size analysis, financial ratios analysis, Dupont and influence quantification.

This chapter is based on Brigham, Eugene F. and Michael C. Ehrhardt, 2001, Fabozzi, Fran J. and Pamela P. Peterson 2003.

2.1 The Meaning and Goal of Financial Analysis

As we know, the financial analysis is use to assess a company's financial performance. Financial analysis is based on the financial report data and other relevant information, using a series of specialized analysis techniques and methods, companies of the past and present related financing activities, investment activities, operations, profitability distribution activities operational capacity, solvency and ability to grow status analysis and evaluation of the economic management activities. It is intended for corporate investors, creditors, business operators and other concerned organizations and individuals to understand the business in the past, evaluate enterprise status, forecasting the future to make the right business decisions to provide accurate information. The goal of financial analysis is that it enable us to understand the financial situation through the financial statements of the company, and help us to make economic decision.

The purpose of the analysis of financial statements is to provide information that can be used to make the economic decisions. On the other hand, we also can say, financial analysis there are three major goals. First of all, by analyzing the balance sheet, we can understand the financial situation of the company, the company's solvency, capital structure is reasonable, whether sufficient liquidity to make judgments, by analyzing the balance sheet, you can understand the financial situation of the company, the company's solvency, capital structure is reasonable, whether sufficient liquidity to make judgments. Secondly, by analyzing the income

statement, we can understand and analyze the company's profitability, operating efficiency, the company's competitive position in the industry, sustainable development, the ability to make judgments. Thirdly, by analyzing the cash flow statement analysis on its ability to cope with short-term debt capacity and ability to pay.

2.2 Source of information for financial analysis

We know, a financial statement is to provide the financial information about a company, and make people to understand a company’s financial situation. There are many sources about financial statement, such as balance sheet, income statement cash flow, statement of changes in owner’s equity and statement of changes in financial position and so on. These sources are exploring the entire financial information of a company. Each financial statement reflects an aspect of the company's financial condition, these data are very important for the analysis of a company's financial condition. However, in this article we analyze the main financial statement including balance sheet, income statement, and cash flow. We will describe what are balance sheet, income statement, and cash flow, and what are they reflect the company's financial content.

2.2.1 Balance sheet

Balance sheet is also called as position statement. Balance sheet provides so much information to support us to analyze a company’s financial situation. Balance sheet contains two main content, assets and liabilities, and the two items must balance. The balance sheet provides the financial statement at the year end, on the last day of a year. The content formula in the balance sheet as follow:

$$Total\ assets = Total\ liabilities + Shareholders'\ equity \tag{2.1}$$

In a balance sheet, the important issue is the value to place on the assets and liabilities. At the end of a year, the assets of a company are set down on side, and the liabilities are set down another side. And then the balance sheet can help people to understand the total assets, liabilities. In balance sheet includes many items. On the assets side, the long-term assets and the short-term assets are two main types. They include the intangible assets, current assets, investments, cash and cash equivalents and so on. On the liabilities and equity side, the balance sheet include the short-term debt, current portion of long-term debt, total current liabilities, long-term debt, net current liabilities and so on.

These data together form the balance sheet, and we can understand the company's financial strength, solvency and ability to pay and changes in capital structure.

2.2.2 Income statement

Income statement is also called profit and loss account. The income statement reflects the company's operating activities during a year. And income statement reflects the company's sales revenue, cost of sales, operating expenses and tax status during a particular period. The income statement reports results for the company to achieve profits or losses.

Income statement main includes the operating revenues, operating expenses, selling, general and administrative, operating profit, profit for the year and so on. For a company, if the sales revenue is greater than the cost, it means the company has profit, and if the cost is greater than the sales revenue, it means the company has loss.

And the income statement helps us to know the company's gross profit and the net profit. The aim of the income statement has two sides. On the one hand, a company provides enterprise profitability information to managers and investors of financial statements can help them to understand and evaluate the economic efficiency of enterprises, profitability and solvency, and to predict the future. On the other hand, the income statement helps company's managers to find the problems in work, and to make rational business decisions.

2.2.3 Cash flow

As we all know, the income statement can tell us the company has a healthy or not healthy profit, in other words, the income statement can show the company is profit or lose, but the income statement has a disadvantage, it cannot tell us if the company has the cash necessary to survive, if the company has a reasonable cash. Cash flow is a company during a period in accordance with the cash basis, cash by certain economic including operating activities, investing activities, financing activities and cash inflows, cash outflows.

In the financial accounting, the cash flow shows the balance sheet items and the income statement items affect the cash, including the cash inflows and cash outflows. And there are three categories in cash flow statement, investing activities, operating activities and financing activities. And in the cash flow statement has some main items, such as net cash used in investing activities, cash flows used in financing activities, net increase in cash and cash equivalents and so on.

Cash flow is important for a company to improve their financial management. Cash flow statement has three main functions. First of all, statement of cash flow helps us to evaluate the ability to pay, repayment capacity and turnover capability. Secondly, statement of cash flow helps us to predict the company's future cash flows. Thirdly, statement of cash flow can help us to analysis the net cash flow and the factors to impact the cash flow, it also can help us to analysis the quality of company’s earnings.

2.3 Common size analysis

Common size analysis can divide two types, vertical analysis and horizontal analysis. Common size analysis involves entire financial statements, in relation to a single financial statement item.

2.3.1 Vertical common-size analysis

Vertical common-size analysis, is a method of analysis, it use for the analysis of financial data. In order to get the positions, the changes of the data, using the data to compared with the total in the financial statement. We use the vertical analysis to calculate the balance sheet, cash flow, and income statement. Vertical common-size analysis is using the following formula.

$$IP_t = \frac{I_t}{B_t} \tag{2.2}$$

The I_t is the value from the item, and the B_t as a base value in the item, it is the benchmark. And a vertical common-size financial statement divides each income statement item by revenue in generally.

We take an example. A vertical common-size of the balance sheet we often calculate use each item dividing by the assets, and then we often express the results as percentages, we will use vertical common-size of balance sheet to make people understand the company's balance sheet composition compare with the company, and then we can analysis and know what are the reasons make those information is difference.

2.3.2 Horizontal common-size analysis

The horizontal analysis is the analysis is using the data that can reflect the financial situations, and then we use the horizontal analysis to compare with 0the same data. If we use this horizontal analysis we can easier find the trend during a period. is using the following formula.

$$\Delta l_t = \frac{l_t - l_{t-\Delta t}}{l_{t-\Delta t}} \tag{2.3}$$

In this horizontal analysis formula, we can see, the l_t it is means the value about the item in one year, and the $l_{t-\Delta_t}$ it is means the value about the item in a particular year, we also can call

it base year, we use the base year to calculate every year.

2.4 Financial ratio analysis

Financial ratio is very significant for people who want to know a company financial situation if it is health. Financial ratio analysis is the use of financial accounting to assess a company's financial performance. Financial ratios can used by managers within a firm, potential shareholders, and by a firm's creditors, and help them to understand the company's financial condition and to make an investment decision. Though the financial ratio analysis, they are simple to calculate and easy to understand the financial situation, it is an easy method to analysis the company's financial.

We can use financial ratio to analyze a company's financial situation. Financial ratio is the ratio between the two data on the financial statement, including cash flow, balance sheet, income statement, these ratios involved in all aspects of business management. Financial ratios help people to analyze the company's financial data. Financial ratio analysis is the financial analysis method. A company often uses financial ratio to compare the strengths and weaknesses in various companies.

In this thesis, there are four groups of financial ratios mentioned, including profitability, liquidity, solvency and activity ratios

2.4.1 Profitability ratio

Profitability ratios are useful to analyze the financial health of companies. The profitability ratios show us the company's financial performance in the company's business. Profitability ratios usually to use the data including total revenue, net income, operating profit, shareholders' equity, and total assets. There are many indicators can reflect the profitability of the business, such as operating profit margin, net profit margin, return on asset, return on equity.

Operating profit margin

Operating margin is defined as the ratio of operating profit and total revenue. It is a

measure of business efficiency indicator. The higher the operating profit margin, and more efficient the company's business and the higher earnings the company gets. There are many factors that affect operating margin, such as cost of goods sold, and total revenue. The ratio can be defined as

$$Operating\ \ profit\ margin = \frac{Operating\ \ profit}{Total\ revenue}. \tag{2.4}$$

On the contrary, the lower the ratio, indicating the company has a weaker profitability.

Net profit margin

Net profit margin is the ratio of net income to revenues. It is calculated by finding the net profit as a percentage of the revenue. Net profit margin reflects the sales revenue generated per dollar of how much net profit, which means that the level of sales revenue.

$$Net\ \ profit\ margin = \frac{Net\ \ profit}{Total\ revenue} \tag{2.5}$$

Generally speaking, the larger the index, indicating the profitability of business sales stronger.

Return on assets

Return on assets (ROA) is efficient management using its assets to get income. The return on assets calculated by dividing a company's net profit divided by its total assets.

$$ROA = \frac{Net\,income}{Total\,assets} \tag{2.6}$$

The higher the ratio of return on assets , the higher the company's effect in using assets, the lower the ratio of return on assets, the lower the company's effect in using assets.

Return on equity

Return on equity (ROE) is net income return as a percentage of equity. Return on equity is used to assess the profitability of a company' s shareholders' investment.

$$ROE = \frac{Net\ income}{Equity} \tag{2.7}$$

The higher ratio of return on equity, the higher profit can get for an investment.

2.4.2 Liquidity ratio

Liquidity ratio is a company's ability to repay short-term creditors out of its total cash. The liquidity ratio is the result of dividing the total cash by short-term borrowings. It shows the number of times short-term liabilities are covered by cash. It is a measure company's ability to meet it is short-term liability and obligation. In general, the higher of the ratio, indicating that liquidity is stronger corporate assets, short-term solvency is also stronger. But the ratio cannot be used to assess the liquidity of the company's future funding, because the ratio of the elements are from the point of balance sheet indicators, only represent companies in a given moment the state of all available resources, there is no causal relationship with the future flow of funds.

In this thesis, there are three ratios about liquidity ratio, including current ratio, quick ratio, cash ratio.

Current ratio

Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations. Current ratio equal to current assets divided by current liabilities.

$$Current\ \ ratio = \frac{Current\ \ assets}{Current\ \ liabilities} \tag{2.8}$$

The higher the current ratio, the company has more capable of paying its current liabilities. And the lower the current ratio, the company has less capable of paying its current liabilities.

Quick ratio

The quick ratio is equal cash plus short-term marketable investment plus receivable divided by the current liability. Quick ratio a measure of a company's liquidity assets can be realized immediately used to repay the current liabilities.

$$Quick \text{ ratio} = \frac{Cash + Short-term\ marketable\ investment + Rceivable}{Current\ \ Liabilities} \tag{2.9}$$

Generally speaking, if a company's quick ratio is too low, there is a large current liabilities risk, on the contrary, if a company's quick ratio is too high, the company will increase the opportunity cost of business investment, because the company take up too much assets in the current assets.

Cash ratio

The cash ratio is most commonly used as a measure of company liquidity ratio. It is equal cash plus short-term marketable investment divided by current liabilities. Cash ratio is ability to repay its current liabilities to a company,

$$Cash\ \ Ratio = \frac{Cash + Short-term\ marketable\ investemnt}{Current\ \ Liabilities}. \tag{2.10}$$

In most cases, the higher of the cash ratio, the company has the greater ability to repay the current liabilities.

2.4.3 Solvency ratio

Solvency ratio includes debt to assets ratio, debt to equity ratio, financial leverage. Solvency ratio is to determine the safety and ability to repay long-term debt of a company's debt. Size of the solvency largely reflects the business risk. And solvency ratio is measure a company's ability to repay the long-term debt.

In this thesis, we will introduce the debt to assets ratio, debt to equity ratio, financial leverage.

Debt to assets ratio

Debt to equity ratio shows the percentage of total debt to total assets. We calculate it use total debt divided by total assets.

$$Debt-to-assets\ ratio=\frac{Total\ debt}{Total\ assets} \tag{2.11}$$

If a company debt to assets ratio is the lower, the company's financial risk is lower.

Debt to equity ratio

Debt to equity ratio is equal to long-term debt divided by common shareholder's equity. Debt to equity ratio is a measure of a company's financial leverage indicator. Debt to equity ratio reflects the relationship between the creditors and the shareholders.

$$Debt-to-equity\ ratio=\frac{Total\ debt}{Total\ shareholders'\ equity} \tag{2.12}$$

If the debt to equity ratio is lower, it means the creditors' interest can be protected, and the company's financial is low. Generally speaking, the debt to equity ratio should be less than one.

Financial leverage

Financial leverage is the use of borrowing money to increase production volume, and increase the sales and earnings.

$$Financial\ leverage=\frac{Total\ Assets}{Total\ shareholder'\ equity} \tag{2.13}$$

We can say, if the financial leverage ratio is higher, it means the company uses more debt in the company's finance.

2.4.4 Activity ratio

Activity ratios are measures make us know how well the company's assets are used. In this thesis, there are use four activity ratios, including receivables turnover, long-term assets turnover and total assets turnover.

Receivables turnover

Receivables turnover is an accounting measure used to quantify a firm's effectiveness in extending credit as well as collecting debts. The receivables turnover ratio is an activity ratio, measuring how efficiently a firm uses its assets.

$$\text{Re}\,ceivables\ turnover = \frac{\text{Re}\,venue}{Average\ receivable} \tag{2.15}$$

Generally speaking, we can say the higher receivable turnover, the company is better, but sometimes, the different industry has different situation.

Total assets turnover

Total assets turnover is the amount of sales or revenues generated per dollar of assets. Total assets turnover ratio is an indicator of the efficiency with which a company is deploying its assets.

$$Total\ assets\ turnover = \frac{\text{Re}\,venue}{Average\ total\ assets} \tag{2.16}$$

If the turnover is higher, we can see a company can generate more sales use fewer assets. In other words the higher the ratio, the better it is. For example, the company's revenue is 150 dollars, and the company's total assets is 100 dollars, we can calculate the total assets turnover is 1.5, so we can say the company used 1 dollar can produce 1.5 revenue.

Long-term assets turnover

Long-term assets turnover is calculate revenue divided by average long-term assets.

$$Long-term\ assets\ turnover = \frac{\text{Re}venue}{Average\ long-term\ assets} \tag{2.17}$$

2.5 Dupont analysis

The DuPont analysis was developed by E. I. du Pont de Nemours, the system of decomposing the return ratios into their profit margin and turnover components.

Dupont calculated to use the ROE basic formula (2.7) and then break down. The ROE can be decomposed into three formula, including profit margin, total assets turnover and the financial leverage. We can decompose the return on equity ratio as follow:

$$ROE = \frac{Net\ income}{Equity} = \frac{Net\ income}{\text{Re}venues} . \frac{\text{Re}venues}{Total\ assets} . \frac{Total\ assets}{Equity} \tag{2.18}$$

After that, ROE also can be decomposed into five formula, including tax burden, interest burden, EBIT margin, assets turnover and the financial leverage. We also can decompose the return on equity as follow:

$$ROE = \frac{Net\ income}{Equity} = \frac{Net\ income}{EBT} . \frac{EBT}{EBIT} . \frac{EBIT}{\text{Re}venue} . \frac{\text{Re}venue}{Total\ assets} . \frac{Total\ assets}{Equity} \tag{2.19}$$

And then we also can called

$$\text{ROE} = \begin{pmatrix} Tax \\ burden \end{pmatrix} \begin{pmatrix} Interest \\ burden \end{pmatrix} \begin{pmatrix} EBIT \\ \text{m}arg in \end{pmatrix} \begin{pmatrix} Asset \\ trunover \end{pmatrix} \begin{pmatrix} Financial \\ leverage \end{pmatrix} \tag{2.20}$$

2.5.1 Influence quantification

The most utilized methods of influence quantification of the return on equity are the method of gradual changes and logarithmic decomposition method. We can find the definitions of these methods in Zmeškal 2004.

Gradual change method is to quantify the change in a basic ratio, we can see the (2.21), is a formula about gradual change method. Gradual change method has a disadvantage, we need use different formula calculate. And in this formula, the *a* is the component ratio, the Δa is absolute change of basic ratio.

$$\Delta x_{a1} = \Delta_{a1}.a_{2,0}.a_{3,0}.....a_{n,0}.\frac{\Delta y_x}{\Delta_x}$$

$$\Delta x_{a2} = a_{1.1}.\Delta_{a2}.a_{3,0}.....a_{n,0}.\frac{\Delta y_x}{\Delta_x} \qquad (2.21)$$

$$\Delta X_{a,n} = a_{1,1}.a_{2,1}.a_{3,1}.....\Delta a_n.\frac{\Delta y_x}{\Delta x}$$

The (2.22) is the formula about logarithmic method, the Δx is the absolute change in the basic ratio, the x is the basic ratio, and the $l_a = \frac{a_1}{a_2}$ is the index of change in component ratio.

$$\Delta a_{xi} = \frac{\ln l_{ai}}{\ln l_x}.\Delta x \qquad (2.22)$$

3 Financial characteristic of the company

In this chapter, we will introduce the financial characteristics about the China Telecom Corporation Limited, and some basic information about the company such as the scope business about the company and the history about the company.

3.1 The basic data about China Telecom Company

China Telecommunications Corporation was founded in 2000, is China's large state-owned telecommunications companies, the Shanghai World Expo and Guangzhou Asian Games, global partner for many years appeared in the "Fortune 500 companies", the registered capital of 158 billion yuan. The main fixed telephone, mobile communications, satellite communications, Internet access and application of integrated information services. China Telecommunications Corporation in the country 31 provinces (autonomous regions and municipalities) and the Americas, Europe, Hong Kong, Macao and other places with branches, with urban and rural areas across the country, around the world communication and information service network, built the world's largest domestic commercial earliest and most extensive coverage CDMA3G network, owns "Tianyi", "Tianyi fly Young" "Tianyi e home", "Tianyi pilot", "Tone" "megaupload" and other well-known brands, with full-service telecommunications, multi-product integration service capabilities and channel system. Companies affiliated "China Telecom Corporation Limited" and "China Communications Services Corporation Limited," the two holding companies, formed the main industry and secondary industry operators dual share structure, China Telecom Corporation Limited in 2002 in Hong Kong, New York market, China communications Services Corporation Limited listed in Hong Kong in 2006.

3.2 Company culture

Enterprise mission to allow customers to enjoy new a life about information; Strategic goal to make a world-class integrated information service provider,core values, a comprehensive pragmatic people-oriented innovation to create value,business philosophy, the pursuit of corporate value and customer value and grow together, service Concept, Customer first intentions.

3.3 Research and development system

R & D responsibilities

According to business development strategy, combining market and technology trends, developing new business, new product development, launch services and proprietary products; develop communication related technology development strategy, new technology, new equipment, new business conduct experiments laboratory testing and operation of the network, and developed enterprise technology systems and standards to guide the development of new technologies to promote communication .

R & D capability

The company owned Beijing Institute, Guangzhou Research Institute and Shanghai Research Institute. China telecom has built a number of first-class professional technical laboratories and technical centers. After years of sustained investment to become a professional complete, advanced equipment and network technology laboratories, including optical transmission network, access, network switching, data, multimedia, network security and wireless Laboratory, while according to the needs of the existing network, also set up support software testing center and professional network operation and maintenance support center.

·R & D focus

Actively carry out intelligent network, third generation mobile communications, broadband access, intelligent optical net working, video conferencing systems, the next

generation Internet, broadband television and other major strategic technology research, strengthening of new businesses, the development of value-added services fully support China Telecom network operators from the traditional foundation of modern integrated information service provider to the strategic transformation.

3.4 Oversea expansion

China Telecom to accelerate the pace of expansion in overseas markets in 2008, to support the American company actively expanding the American market, and expand the scale of business development, and enhance market competitiveness, in 2008, the American company $ 20 million of new investments, the company's total investment in the Americas reached $ 43,040,000. American companies to obtain new capital investment, increased efforts in building a network in the United States, and built a Seattle node, upgrade and expansion of the backbone transmission network, in Seattle established a new sales representatives, and made a proposal to set up branches in Brazil and obtain group approval of the company. Hong Kong’s company built in Japan, Taiwan cooperation node, Taiwan and Vietnam established a new sales agent; European company established a new representative office in the United Arab Emirates, a new China Net Frankfurt node.

China Telecom to continue to explore operational consulting services to overseas export overseas to develop new business in 2008. Actively involved in the management of company operations in Angola Movicel project; promote the Shanghai Cooperation with ZTE telecom companies involved in the operation and maintenance of Morocco WANA outsourcing projects, provides the necessary operational guidance. With the expanding range of overseas expansion, China Telecom's position in the international telecommunications market continues to improve, in overseas markets and customers influence is rising.

China Telecom and the global 40 countries and regions, 69 companies to establish a bilateral voice direct circuits, business partners, mainly in Asia, North America, South America, Europe, Africa, Hong Kong, Macao and Taiwan can provide to other countries and regions

worldwide telephone voice services. Types of services provided include voice IDD, ISDN, HCD, ITFS, UIFS, VPN, telephone cards.

China Telecom and Global 85 foreign operators to carry out the internet cooperation with overseas operators interconnect bandwidth of 339G. China net international status improved significantly and has become the Asia-Pacific region and the world's top Internet.

China Telecom has formed the Americas, Hong Kong companies, European companies to expand overseas as the main pattern, are responsible for the Americas, Asia, Oceania, Europe, Middle East, Africa and overseas market development work. The foreign company's business structure is reasonable, rapid customer growth, customer high quality, showing healthy and rapid development momentum. The China telecom has been around the world more than 14 countries and regions to establish a marketing network, focusing on multinational clients and "going out" of Chinese enterprises and individuals to provide a variety of communication and information services.

3.5 Network Partner

China Telecom to further strengthen the international network capacity building, co-sponsored by China Telecom direct trans-Pacific cable system (TPE) put into operation, the first Sino-US direct 12.5G smooth opening of the circuit, so that the direction of China Telecom North America 150G transmission bandwidth from existing to 235G; Europe and Russia on the 2nd direction 30G cable system went into operation by the end of 2008; 2008 completed Vietnam and VTI, VIETTEL, EVN system expansion project, and start with Laos ETL system expansion and construction of the LTC second cable routing project; 2006 - 2008 to be completed with the Mongolian mobile (Mobicom) and the Mongolian Railway (Railcom) fiber optic cable docking to Mongolia system capacity reached 15G, network scale is far ahead other domestic carriers; cooperation with Hutchison spike SWC channel transmission project was put into operation in August, the Mainland Hong Kong western Corridor third route between the new and only China Telecom owns this route.

China Telecom also with the neighboring countries and regions bordering the operators to carry out extensive cooperation, to build a new Sino-Russian cable (TEA), Vietnam optic cable, fiber optic cable Burma, Laos optic cable, fiber optic cable and Kazakhstan, Russia, Mongolia, China and India cable, the Mainland - Hong Kong, China - Macau, Eurasia TAE connection cable and connecting cable CSC Southeast Asia and a number of cross-border terrestrial cable systems. China Telecom to respond positively to the call to participate in "Mekong information superhighway" and "Shanghai Cooperation Organization information superhighway" of the building, and vigorously expand forwarding business, consolidate Asia-Pacific communications relay center. China has become the world's telecommunications operators and China's neighboring countries and regional carrier interoperability portal and become connected to Europe, Asia, Oceania and other continents of the bridge.

China Telecom has a terrestrial cable system 18, the international sea cable system, global coverage in all directions, each direction of the global export capacity of the international transport network 625G. Has two submarine cable landing stations Chongming station and Shantou Station, the Asia Pacific region three major submarine cable SEA-ME-WE3, China-US cable, the 2nd Asia-Pacific submarine cable landing stations are in both, but in 2008 production of TPE sea cable landing station in Chongming.

3.6 China Telecom Company's honors

China Telecom 8 consecutive years become the "Fortune magazine 500 companies." 2003 in the "Investor Relations" magazine named the Asian region in 2003, the China Telecom was elected as the new Asian market in 2003 in the best investor relations group project award. 2004 In the "Euromoney" magazine sort, China Telecom was elected as the telecommunications industry in China Best Managed Company Award. 2005 In the "institutional investors" 2005 Asian Investor Relations Award, China Telecom Chairman and CEO Mr. Wang was elected in 2005 in China the best CEO. 2006 China Telecom Company elected as China Outstanding Enterprise Awards - Telecommunications. 2007 China Telecom Company again won the Outstanding China Enterprise Awards - Telecommunications. 2008 Access to "Fortune

magazine "China's Most Admired Company" .China Telecom assumed police private network structure optimization technology projects smoothly through the Ministry of Public Security Science and Technology Prize in 2008, won the "Ministry of Science and Technology Award.".China Telecom is China Consumer Association awarded the "Olympic commitment Jiannuo advanced unit" title. 2008 People's Social Responsibility Award", the China Telecom selected the "People's Social Responsibility Award".2009 Alliance for CDMA Development (CDG) issued global CDMA operators Leadership Award.

China Telecom China Foundation for Poverty Alleviation due actively supports public administration modernization universal service platform, access to the "new China 60 birthday caring role model" the honorary title.

China Telecom was awarded by the China Trade Promotion and Brand China Industrial Alliance awarded the 2009 Brand China "China Spectrum Award."China Telecom was awarded the "Asian Legal Affairs " magazine (Asia Legal Business, abbreviated ALB) awarded the 2009 " Best Chinese Company Law " and "Best Chinese regional corporate lawyer " awards , becoming the first company won the two large awards Chinese enterprises.2011 Hundred enterprises in China ranked 14. 2012 To 245,041 (million) revenue hundred enterprises in China ranked 15. 2013 2013 won the Chinese Academy of brand value, the Central National Census Commission, the focus of China jointly issued the 2013 annual net 500 Chinese brands.

3.7 Corporate identity

China Telecom corporate logo from the domestic brand consulting and design firm Design Bond in 2008, China Telecom's corporate identity overall shape rustic simplicity, smooth lines and dynamic. China Telecom to trendline English first letter C were changing combinations, like open arms, deemed vibrant Tau and the dove of peace flying wings, with a strong sense of the times and the visual impact. Passed out of our self-confidence and enthusiasm, symbolizing accessible, smooth, efficient telecommunications network connecting every corner, serving more users; expression of our "customer first, hard service" service concept, reflects hand in hand with the user , heart to heart the good feelings. It also contains a

comprehensive enterprise innovation, pragmatic and constantly go beyond the spirit, show the companies with the times, to make progress, to flourish, to create a better life for good vision. Latitude and longitude of the two C, symbolizing the layout of China Telecom's international operations, and through the use of the golden section method makes the whole dynamic of the flag also has steady property.

Picture 1 China Telecom’s trademark

Source:http://www.ark-relocation.com/shanghai-pre-arrival-guide/practical-info/china-telecom-2

3.8 Business overview

China Telecommunications Corporation can provide telephone service, Internet access and applications, data communications, video services and other types of communications services, to meet the domestic and international customers a variety of communication needs.

3.9 China Telecom products

Phonebook assistant is China Telecom launched the safe, reliable, cross-device, cross-network address book management service, support phone contacts with 189 mailboxes, Tianyi broadband and other business systems real-time synchronization, you can WEB / WAP / mobile client contacts a variety of ways such as query, edit, backup and recovery, is when your replacement a good helper, manage your contacts a good assistant. China Telecom to provide Android version, Brew version, Windows Mobile version and IOS version of the mobile client.

Service, support phone contacts with 189 mailboxes, Tianyi broadband and other business systems real-time synchronization, you can WEB / WAP / mobile client contacts a variety of ways such as query, edit, backup and recovery, is when your replacement a good helper, manage your contacts a good assistant. China Telecom to provide Android version, Brew version, Windows Mobile version and IOS version of the mobile client.

Reading is China Telecom Tianyi integrate various reading content to meet the needs of a business customer to read. Tianyi video client products to China Telecom also provides services nationwide."Love Music" is the Chinese telecom digital music business a unified brand. 189 E-mail is China Telecom C network for mobile phone users, a new generation of broadband users mailbox services. Tianyi QQ number is Tencent and China Telecom jointly launched a service, as long as China Telecom 180,189,133 and 153 segments of mobile phone users, you can complete the necessary certification in the program, using the phone number as QQ number Log in and use of Tencent related products and services.

3.10 China Telecom broadband development

1999 China Telecom broadband ADSL (Asymmetric Digital Subscriber Loop) official business. 2002 China Telecom Corporation was established, China's formal entry into the broadband development.In 2005, China's broadband users reached 37.35 million, for the first time beyond the scale of dial-up users, marking the ADSL broadband access as a user access to the Internet's main access. In 2008 the scale of China's broadband access users jumped to first in the world. 2009 China's broadband access subscribers for the first time more than 100 million. In 2010 China's broadband users reached 126 million. December 4, 2013, Chinese Ministry of Industry and Information Technology to China Telecom issued a fourth generation mobile communication system based on TD-LTE (4G) business license.

3.11 Business development

2011, China Telecom Group companies continue to improve the whole business ability, the successful completion of key market management tasks, the whole business development to achieve new breakthroughs.

China Telecom Company Income to maintain good growth, large-scale development to achieve new breakthroughs. 2011, the Group achieved a consolidated operating income of 2,920.24 yuan, an increase of 12.1 %, of which the main communications industry to achieve operating income (excluding upfront connection fees and terminal sales) 2,403.15 billion yuan, an increase of 8.7%; among one hundred million yuan fixed- income 1,706.15; mobile services revenue reached 69.7 billion yuan, an increase of 42.6% , accounting for the proportion of communication main business revenue reached 29 %, compared with last year increased 6.9 percentage points. 2011 mobile subscribers increased by 2,978 million to reach 123 million mobile subscriber market share of 12.4%; southern markets beyond China Unicom, the total number of mobile subscribers; cable broadband subscribers reached 8,515 million. 2011 scale breakthrough results achieved stage for the next long-term sustainable development of enterprises laid a favorable condition.

The initial formation of the terminal lead the sales model, enhance the capacity of the whole business. 3,761 self-operated stores hall complete transformation, hall terminal sales grew more than 27%; social channels to achieve partial breakthrough, the development of mobile users accounting for social channels annual average of 58.0% (which by the end of December 2011 was 61.0%), 97.4% of municipal branches achieved Tianyi terminal in the sales ranking of ten channels of retail outlets of social business development presence of at least five goals. End of the year, expanding into the lead C G stores 9,752 homes. China Telecom Company Channels through the support system to complete the test, for the dragon mobile and social channels to expand into the foundation, channel capacity building to promote the development of mobile users ceiling breakthrough, new developments in December 2011 nearly 8,000,000 users. Start "Broadband China Optical Network City" strategy to speed up

broadband speed, launched its own integration package, enables mobile broadband two-way pull, the average monthly growth of broadband users more than 1.32 million, the scale advantages of rapid development of broadband services.

3.12 The history of China Telecom Company

China Telecom, originally known as "China Telecom Mobile Communications Post Office "In 1995, corporate registration, from the gradual implementation of separating. In 1998, postal services, telecommunications sub-camp, began to focus on telecom operators. In 1999, China Telecom's paging, satellite and mobile services are stripped out. In 2000, China Telecommunications Corporation formally. In 2001, China Telecom was again restructuring carried out north-south split. North Netcom generated, Southern Telecom. May 2002, the new China Telecom Corporation was formally re- established. May 24, 2008 China Telecom 110 billion acquisition of China Unicom's CDMA network (including assets and users), China Satcom's basic telecom business into China Telecom. At 14:30 on January 7th, 2009 news, the Ministry of Industry and Information Technology of China Mobile, China Telecom and China Unicom issued three third-generation mobile communications (3G) licenses , the move indicates that China has officially entered the 3G era , in which China Telecom was CDMA2000 license. At 10:58 on March 29, 2011 China Telecom mobile users billions of dollars to become the world's largest CDMA operator. July 20, 2012 China Telecom (Korea) Co., Ltd. opened began to enter the Korean market.

4 Evaluation of Financial situation of the Company

In this chapter, we will use the financial analysis methods to analyze the China Telecom company's financial reports from 2009 to 2013. Firstly, we will make common-size analysis of financial statements, after that financial ratio analysis will be calculated. Finally, we analyze the Dupont and influence quantification.

4.1 Common-size analysis

In this thesis, we will calculate vertical common-size analysis and horizontal common-size analysis of financial statements.

4.1.1 Vertical common-size analysis

In this part, we use the formula (2.2) in chapter two to calculate. In the vertical common-size analysis of income statement, we use the revenue as the benchmark, after that, in the vertical common-size analysis of balance sheet, we use the total assets and total equity and liabilities as the benchmark.

Table 4.1 Vertical common-size analysis of Income Statements

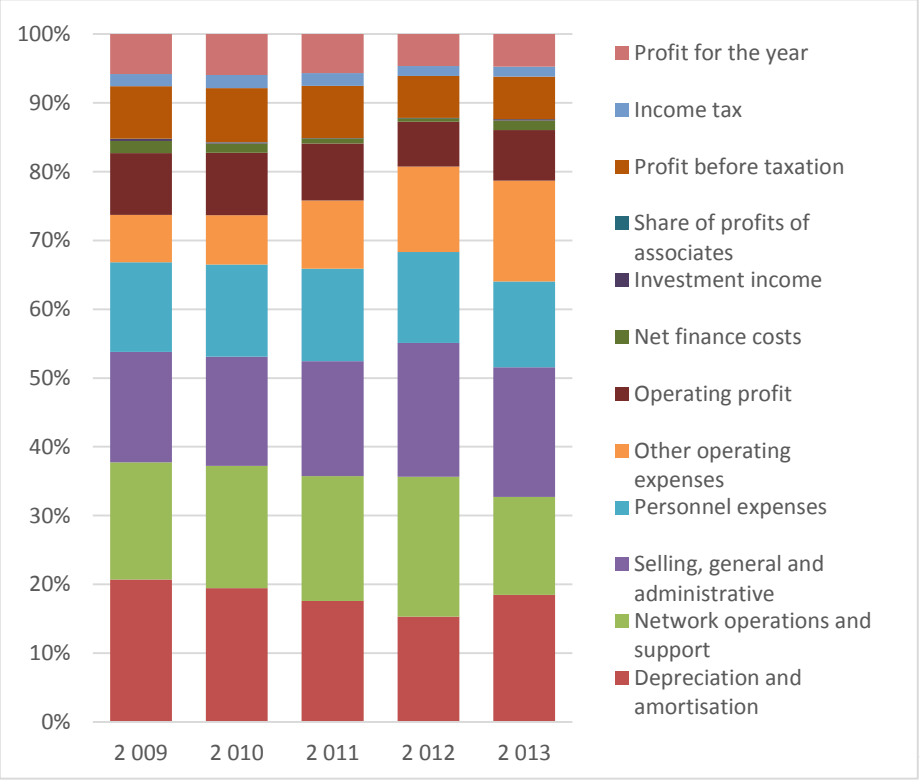
Year	2 009	2 010	2 011	2 012	2 013
Revenue	100%	100%	100%	100%	100%
Depreciation and amortisation	24,95%	23,49%	20,91%	17,54%	21,48%
Network operations and support	20,49%	21,51%	21,60%	23,32%	16,51%
Selling, general and administrative	19,35%	19,16%	19,89%	22,28%	21,91%
Personnel expenses	15,69%	16,16%	15,98%	15,12%	14,53%
Other operating expenses	8,33%	8,69%	11,78%	14,25%	17,03%
Total operating expenses	89,18%	89,08%	90,15%	92,52%	91,46%
Operating profit	10,82%	10,92%	9,85%	7,48%	8,54%
Net finance costs	2,09%	1,64%	0,92%	0,55%	1,60%
Investment income	0,38%	0,16%	0,02%	0,03%	0,21%
Share of profits of associates	0,05%	0,06%	0,04%	0,03%	0,03%
Profit before taxation	9,16%	9,51%	8,98%	6,99%	7,18%
Income tax	2,17%	2,29%	2,21%	1,68%	1,69%

Profit for the year	6,99%	7,22%	6,77%	5,31%	5,49%

Source: own calculation

We can look at the table 4.1, the vertical common-size analysis of income statements, we can find that we use the revenue as the benchmark, and as the 100 percentage. We can see the total operating taxation proportion of the revenue increased from 89.18% to 91.46% in the past five years, and the largest proportion was 92.52% in 2012. Next we look at the selling, general and administrative, this item trend the same as total operating expenses, increased from 19.35% to 21.91 in the past five years. The other operating expenses increased very fast in the past five years, from 8.33% to 17.03%, the proportion has almost doubled in the past five years, it means the other operating expenses cost too much. The operating profit was up and down movements, little change in the overall, comparing the 2009 and 2013, the operating profit increased by 0.21 percentage points.

Figure 4.1 Vertical common-size analysis of Income Statements



Source: own calculation

We can see the proportion of variable size more clearly about the profit fot the year, profit before taxation, total operating expenses during the 2009 to 2013. Firstly, the company's total operating expenses increased during 2009 to 2013. Secondly, the profit before taxation decreased in the past five years. The profit for the year was decreased from 9.16% to 7.18. Thirdly, the profit for the year also decreased in the past five years, from 6.99 to 5.49%.

In conclusion, it can be seen from the table 4.1 and figure 4.1, we can say the company's expenses increased, the profit before taxation and the profit for the year decreased. We assume the revenue always was 100%, it means the company's profit before taxation and profit for the year were smaller proportion. Because the total operating expenses proportion was bigger in the past five years.

Table 4.2 Vertical common-size analysis of assets

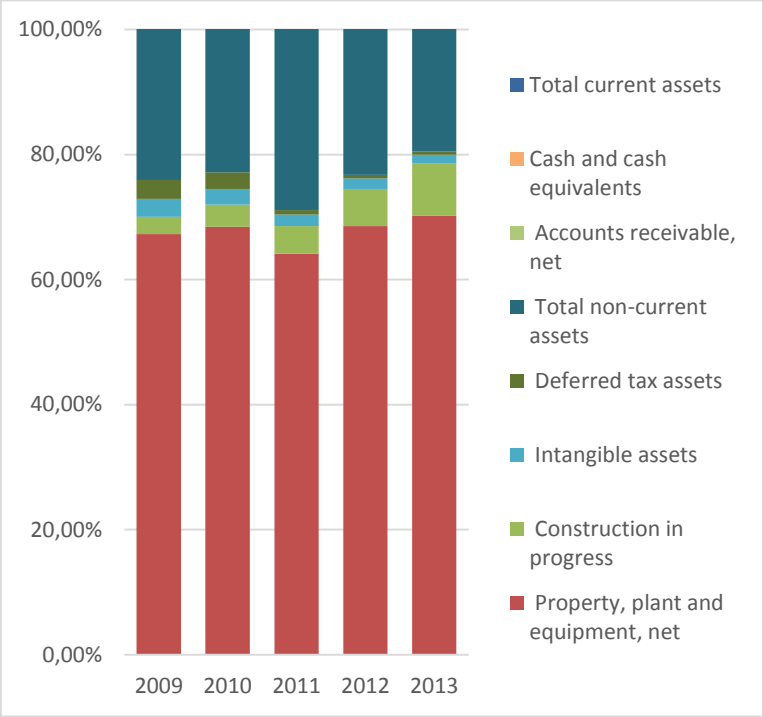
Year	2009	2010	2011	2012	2013
Non-current assets					
Property, plant and equipment, net	67,31%	68,47%	64,15%	68,57%	70,28%
Construction in progress	2,72%	3,56%	4,40%	5,96%	8,27%
Lease prepayments	1,31%	1,34%	6,27%	4,73%	4,72%
Intangible assets	2,90%	2,46%	1,84%	1,69%	1,45%
Investments in subsidiaries	2,03%	1,32%			1,14%
Interests in associates	0,17%	0,19%	0,23%	0,19%	0,11%
Investments	0,04%	0,21%	0,15%	0,11%	0,19%
Deferred tax assets	3,04%	2,67%	0,73%	0,54%	0,50%
Other assets	1,25%	1,09%	0,86%	0,77%	0,72%
Total non-current assets	**87,86%**	**88,79%**	**85,79%**	**88,04%**	**93,01%**
Current assets					
Inventories	0,41%	0,50%	1,16%	1,09%	0,60%
Income tax recoverable	0,41%	0,47%	0,58%	0,28%	0,06%

Accounts receivable, net	3,85%	3,98%	4,41%	3,44%	3,65%
Prepayments and other current assets	0,90%	1,18%	1,11%	1,16%	1,12%
Time deposits with original maturity over three months	0,03%	0,09%	0,43%	0,50%	0,01%
Cash and cash equivalents	6,53%	4,99%	6,53%	5,50%	1,55%
Total current assets	**12,14%**	**11,21%**	**14,21%**	**11,96%**	**6,99%**
Total assets	100,00%	100,00%	100,00%	100,00%	100,00%

Source: own calculation

According to the table 4.2, the vertical common-size analysis of assets, we make the assets as the benchmark. We can find the following characteristics. Firstly, the cash and cash equivalent decreased in those five years, decreased very fast, form 6.53% to 1.55%, nearly 5 percentage points. Secondly, the total current assets also had a huge decreased, from 12.14% to 6.99%, but it increased to 14.21% in 2011, had a big fluctuation. Thirdly, on the contrary, the total non-current assets increased from 87.86% to 93.01%. After that, company's deferred tax assets from 2009 to 2013 continued to decline more than two percentage points. Property, plant and equipment, net increased from 67.31% to 70.28% during 2009 to 2013.

Figure 4.2 Vertical common-size analysis of assets



Source: own calculation

In figure 4.2, there are only showed the items with more than 2 %. We can find the total non-current assets was the largest proportion of total assets, always kept above 85% during 2009 to 2013. It means total non-current assets was the most important part of total assets in the past five years. And the total current assets decreased from 12.14% to 6.99% during 2009 to 2013.

Table 4.3 Vertical common-size analysis of Liabilities and equity

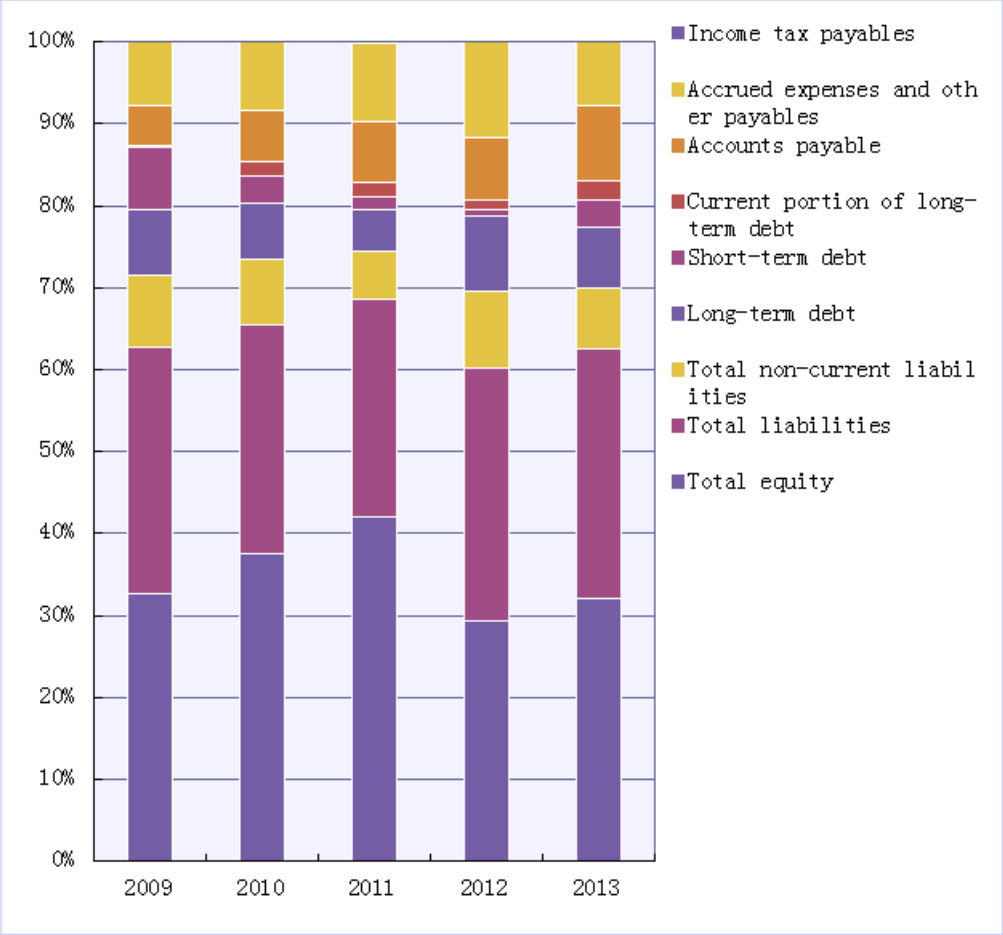
Year	2009	2010	2011	2012	2013
Total liabilities and equity	100%	100%	100%	100%	100%
Total equity	52.06%	57.23%	61.29%	48.81%	51.46%
Total liabilities	47.94%	42.77%	38.71%	51.19%	48.54%
Deferred revenues	1.20%	0.89%	0.65%	0.33%	0.23%
Deferred tax liabilities	0.59%	0.57%	0.27%	0.13%	0.10%
Total non-current liabilities	14.31%	12.09%	8.35%	15.70%	12.15%
Long-term debt	12.52%	10.64%	7.43%	15.24%	11.82%
Short-term debt	12.26%	5.17%	2.19%	1.20%	5.21%
Current portion of long-term	0.35%	2.59%	2.81%	1.87%	3.79%

debt					
Accounts payable	7.64%	9.41%	10.58%	12.63%	14.76%
Accrued expenses and other payables	12.51%	12.81%	14.17%	19.40%	12.36%
Income tax payables	0.05%	0.05%	0.11%	0.09%	0.04%

Source: own calculation

From table 4.3, we can see the vertical common-size analysis of Liabilities and equity. Total equity increased from 52.06% to 57.23 during 2009 to 2010, and increased from 57.23% to 61.29%, after that, total equity decreased from 61.29% to 48.81% during 2011 to 2012, and finally, total equity increased from 48.81 to 51.46 during 2012 to 2013. Those five years, the total equity just decreased 0.6%. Otherwise, the total liabilities, decreased from 47.94% to 42.77% during 2009 to 2010, and continue decreased from 42.77% to 38.71% during 2010 to 2011, after than, it increased from 42.77% to 51.19% during 2011 to 2012, and decreased to 48.54% in the 2013, so, the total liabilities increased 0.6% in the past five years. We can find the company's equity and liabilities' structure just changed a little. And the total current liabilities increased from 33.63% to 36.39 during 2009 to 2013, it means the company's total non-current liabilities decreased in those five years.

Figure 4.3Vertical common-size analysis of Liabilities and equity



Source: own calculation

In this figure 4.3 the vertical common-size analysis of Liabilities and equity is displayed. On the one hand the company's total equity and total liabilities were also stable during 2009 to 2013, and this liabilities and equity's structure did not have a significant change.

4.1.2 Horizontal common-size analysis

In this part, we use the formula (2.3) to calculate the horizontal common-size analysis of income statement and balance sheet.

Table 4.4 Horizontal common-size analysis of Income Statements

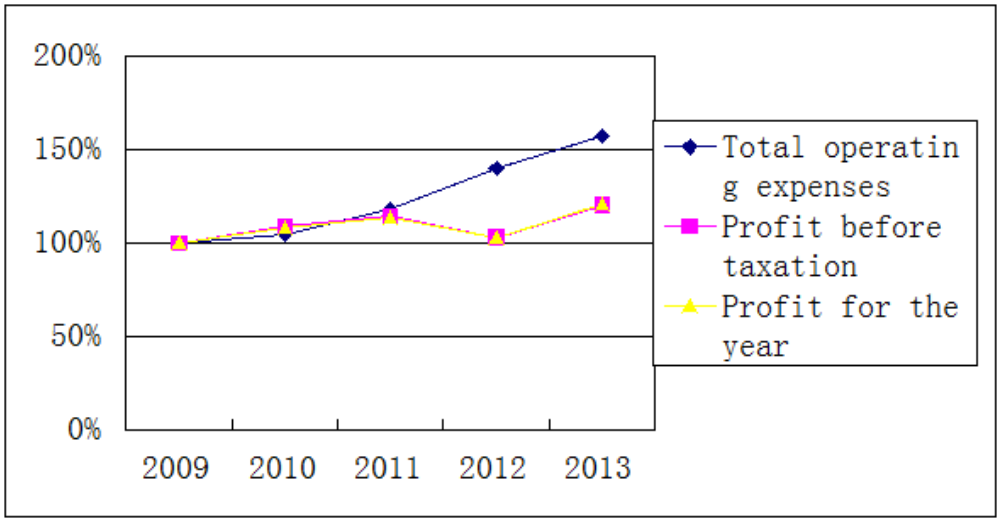
Year	2009	2010	2011	2012	2013
Revenue	100%	105.01%	117.05%	135.20%	153.60%
Total operating expenses	100%	104.89%	118.33%	140.26%	157.52%
Selling, general and administrative	100%	104.01%	120.34%	155.72%	173.92%
Other operating expenses	100%	109.50%	165.45%	231.19%	313.83%
Operating profit	100%	105.99%	106.48%	93.50%	121.23%
Net finance costs	100%	82.29%	51.52%	35.75%	117.78%
Profit before taxation	100%	109.04%	114.80%	103.22%	120.41%
Income tax	100%	110.60%	119.06%	104.48%	119.19%
Profit for the year	100%	108.55%	113.47%	102.83%	120.78%

Source: own calculation

We look at the table 4.4, horizontal common-size analysis of income statement, we use the first year's revenue, total operating expenses, other operating expenses and some other items as the benchmarks. So, we look at the revenue from 2009 to 2013 firstly, we can find the company's revenue increased from 100% to 153.60% during 2009 to 2013, it means the company's revenue sustained increase, and increased 57.52 percent points, it was growth so fast. The cost of sales also increased, it increased from 100% to 104.89% during 2009 to 2010, and increased from 104.89% to 118.33% during 2010 to 2011, and then it also increased from 1118.33% to 140.26% during 2011 to 2012, this year is fastest-growing year, and the cost of sales increased 157.52% in the 2013. The number of selling, general and administrative also increased very fast in those five years. But it is worth noting that other operating expenses, the number of other operating expenses mounted dramatically, increased from 100% to 313.83%. Although the revenue growth very fast, but the other operating expenses growth faster than the revenue. After that , we look at the profit for the year about the company, we can also find the profit for the year increased from 100% to 120.78% during 2009 to 2013. We can make a

conclusion, China telecom company make the revenue growth successful, but the company paid a lot of costs and expenses. Profit for the year growth rate was smaller than the growth rate of the revenue.

Figure 4.4 Horizontal common-size analysis of Income Statements



Source: own calculation

From figure 4.4, we can find the company's revenues continue to create new records during 2009 to 2013, at the same time, the company's cost of sales also continue to increased, and increased about 50 percent. From horizontal common-size analysis of five years of income statements, we can see that the size of the company's net profit and other various indicators are steady growth, but increased the cost of the company's was higher. If we look carefully the figure 4.4, we can also find the profit for the year about the company in 2012 near 100%, it means the company was not very successful in controlling costs and expenses.

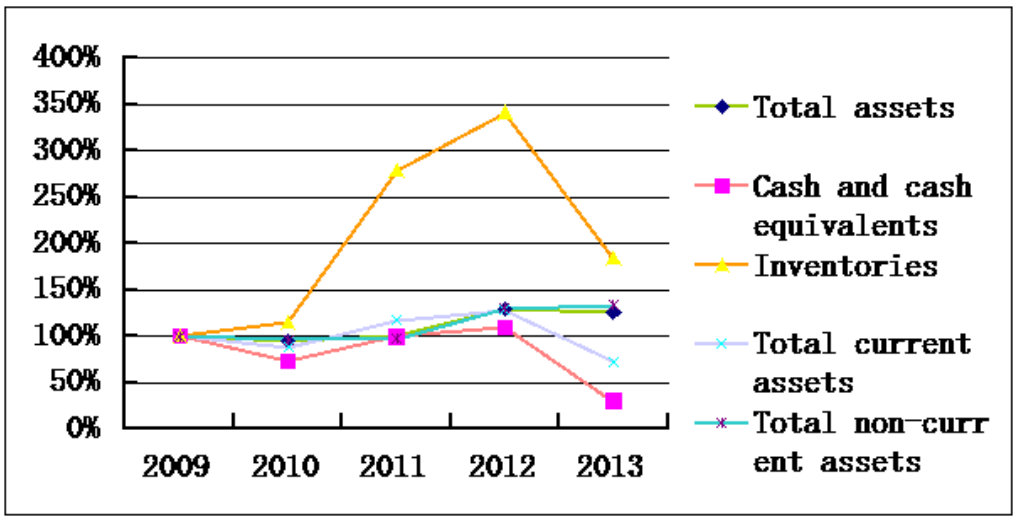
Table 4.5 Horizontal common-size analysis of Assets

Year	2009	2010	2011	2012	2013
Total assets	100%	94.92%	99.47%	129.36%	125.69%
Cash and cash equivalents	100%	72.44%	99.44%	108.92%	29.83%
Total current assets	100%	87.66%	116.49%	127.50%	72.39%
Total non-current assets	100%	95.93%	97.12%	129.62%	133.06%
Accounts receivable, net	100%	98.11%	113.81%	115.64%	119.08%
Deferred tax assets	100%	83.33%	23.96%	22.80%	20.66%
Inventories	100%	115.01%	278.49%	340.89%	184.19%
Other assets	100%	82.83%	68.32%	79.48%	72.08%
Property,plant and equipment,net	100%	96.55%	94.81%	131.77%	131.24%

Source: own calculation

Table 4.5 is about the horizontal common-size analysis of assets. Through table 4.5 we can draw a lot of conclusions. First of all, we look at the total assets item, total assets was increased from 100% to 125.69% during 2009 to 2013, but it also decreased 94.92% in 2010, this year, the company's assets was decreased. Secondly, we see the total current assets, it was decreased to 72.39 in 2013, company's total current assets decreased too much, and the total non-current assets also increased too much. It is worth noting the inventories, this number mounted dramatically in 2012, up to 340.89% and down to 181.19% in 2013. And the Property, plant and equipment, net was also had a growth, up to 131.24% in 2013.

Figure 4.5 Horizontal common-size analysis of Assets



Source: own calculation

We analyze the figure about the company horizontal common-size analysis of assets, the company's total assets continue to decline in 2010 and 2011, but increased in 2012 and 2013, the company's total assets continue to expand during 2009 to 2013. Look at cash and cash equivalents, the company's cash and cash equivalents decreased a lot in 2009 and 2013, cash and cash equivalents was only 29.83% in 2013. Although the company's total assets increased, but the company's total current assets decreased, down to 82.83% in 2010, decreased to 72.08% in 2013. Inventories was the biggest fluctuation line, mounted dramatically. We can make a conclusion, company’s total assets increased, and total non-current assets also increased, but total current assets decreased. Cash and cash equivalents decreased, and we can say, the company use some cash into the inventory.

Table 4.6 Horizontal common-size analysis of liabilities and equity

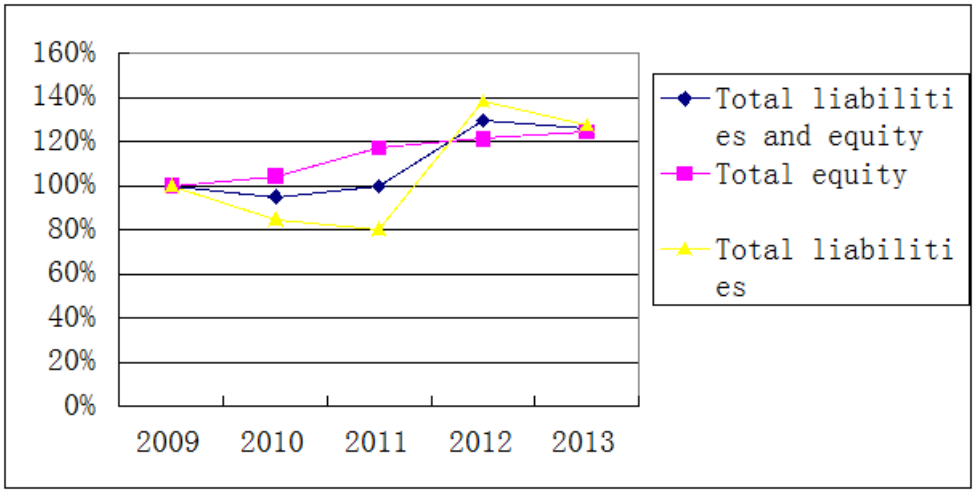
Year	2009	2010	2011	2012	2013
Total liabilities and equity	100%	94.92%	99.47%	129.36%	125.69%
Total equity	100%	104.33%	117.11%	121.27%	124.24%
Total liabilities	100%	84.70%	80.32%	138.15%	127.27%
Deferred revenues	100%	70.53%	53.76%	35.50%	24.36%
Deferred tax liabilities	100%	90.44%	44.66%	28.67%	20.19%
Total non-current liabilities	100%	80.20%	57.99%	141.89%	106.69%
Long-term debt	100%	80.63%	59.03%	157.42%	118.66%
Short-term debt	100%	40.03%	17.79%	12.63%	53.39%
Current portion of long-term debt	100%	696.17%	791.26%	686.75%	1349.83%
Accounts payable	100%	116.89%	137.83%	213.91%	242.98%
Accrued expenses and other payables	100%	97.18%	112.64%	200.59%	124.21%
Income tax payables	100%	92.09%	224.19%	228.84%	93.49%

Source: own calculation

There is horizontal common-size analysis of liabilities and equity during 2009 to 2013 in table 4.6. We can find total liabilities and equity increased from 100% to 125.69 during 2009 to 2013, if we separate liabilities and equity into two part, on the one hand, the liabilities, we can find the total liabilities decreased form100% to 80.32% during 2009 to 2011, but it increased from 80.32% to 127.27% during 2011 to 2013, those two years it increased fast. On the other hand, we look at the equity, it increased from 100% to 124.24% during 2009 to 2013. Through the two items, we can find the equity and liabilities increased almost as the same speed. After that, we look at the short-term debt, we can find it decreased from 100% to 12.63 during 2009 to 2012, and up to 53.39% in 2013, it means China telecom did not have much debt in the past five years, the short-term debt risk was low. But we see the long-term debt, it up to 118.66% in

2013, had a little growth.

Figure 4.6 Horizontal common-size analysis of liabilities and equity



Source: own calculation

According to the 2009 to 2013 annual financial report, the company's total equity to rise for five years. Basic on 2009, the company's various financial indicators of the magnitude of change are large, constantly rise and fall. The three items almost reached the same level of in 2013.

4.2 Financial ratio analysis

We will use financial ratio to analyze the company’s financial situation in this part, in this thesis, there are four groups of financial ratios mentioned, including profitability, liquidity, solvency and activity ratios

4.2.1 Profitability ratio

In this part, we calculate four profitability ratios. And Operating profit margin is calculated based on formula (2.4). Net profit margin is calculated according to formula (2.5). Return on assets is calculated based on formula (2.6). Return on equity is calculated based on formula (2.7).

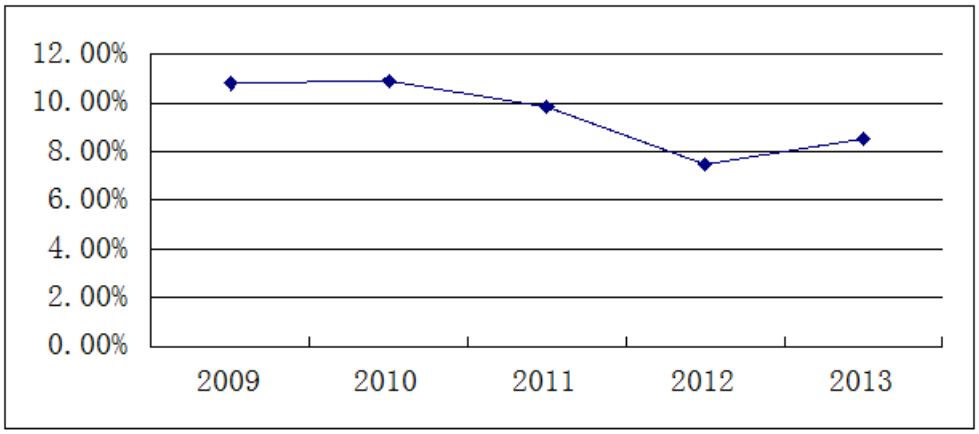
Operating profit margin

Table 4.7 Operating profit margin

Year	2009	2010	2011	2012	2013
Operating profit	22,658	24,016	24,127	21,186	27,468
Revenues	209,370	219,864	245,068	283,073	321,584
Operating profit margin	10.80%	10.90%	9.85%	7.48%	8.54%

Source: own calculation

Figure 4.7 Operating profit margin



Source: own calculation

Look at the table 4.7 and figure 4.7, we can find the China Telecom operating profit margin trend. From 2009 to 2013 the operating profit margin decreased from 10.80% to 8.45%. During this time the company's profit is not very good, due to poor management, resulting in the asset structure is not very healthy. And we can find, the operating profit margin decrease from 10.80% to 7.48% during 2009 to 2012, it means the company's profitability was declining, but it has been improvement in 2013, it means the company's profitability is better in 2013, because the increase in sales volume, and the operating profit also increased. If we just look at the operating profit, we can see clearly, the company's revenue has been increasing in the past five years, from 209,370 to 321,584, but the operating profit margin was decreased, it means company's selling, general and administrative and costs of goods sold are increased fast.

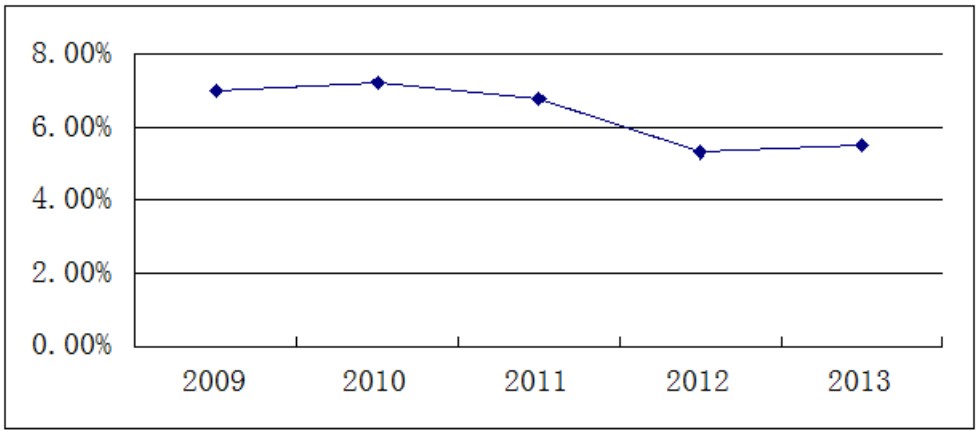
Net profit margin

Table 4.8 Net profit margin

Year	2009	2010	2011	2012	2013
Net profit	14,626	15,877	16,596	15,040	17,666
Revenues	209,370	219,864	245,068	283,073	321,584
Net profit margin	7.00%	7.22%	6.78%	5.31%	5.50%

Source: own calculation

Figure 4.8 Net profit margin



Source: own calculation.

From the Table 4.8 and Figure 4.8. On the one hand, we can look at the net profit margin is like the operating profit margin, it was decreased from 2009 to 2013, and decreased from 7.00% to 5.50%, on the other hand, the net profit margin shows the operating results of the enterprise ultimately a percentage of sales, the decrease in net profit margin, because increased in the income tax and expense items. And during 2009 to 2010, the net profit margin was increase from 7.00% to 7.22%, because the company's net profit was increased from 2009 to 2010. And during the 2010 to 2013, the company's net profit margin decrease from 7.22% to 5.50%, because the company's selling, general and administrative expense was increased so fast.

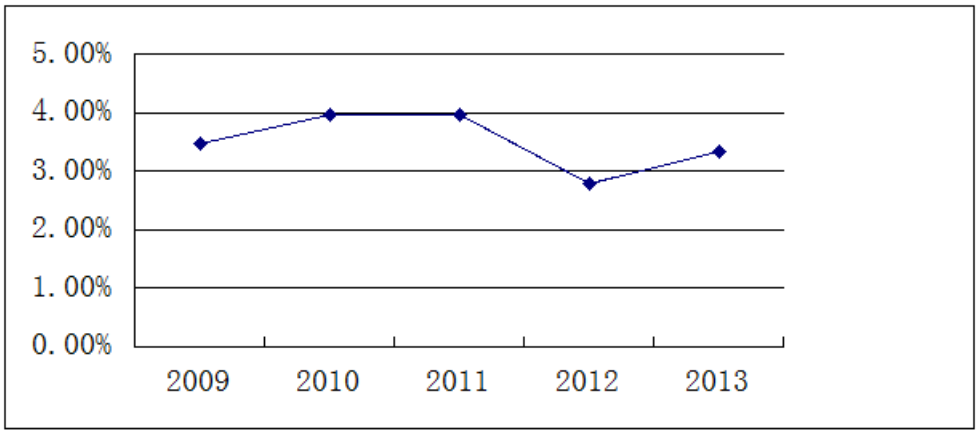
Return on assets (ROA)

Table 4.9 Return on assets

Year	2009	2010	2011	2012	2013
Net profit	14,626	15,877	16,596	15,040	17,666
Total assets	421,366	399,967	419,151	545,072	529,635
Return on assets	3.47%	3.97%	3.96%	2.78%	3.33%

Source: own calculation

Figure 4.9 Return on assets



Source: own calculation

The higher the rate of return on total assets, the higher asset utilization efficiency. We can look at table 4.9 and figure 4.9, we can find the return on assets from 2009 to 2010, it was increased from 3.47% to 3.97%, it means in this year, the company efficiency in capital was growth, but from 2010 to 2011 substantially no change. It was decreased too much in 2012, dropped by more than one percentage point, this situation has been improved in 2013, up to 3.33%, close to 2009 level. During those five years, the return on assets was up and down change, but generally speaking the asset efficiency was not improved, with the improvement of management, innovation and technology, there is a growing trend in 2013.

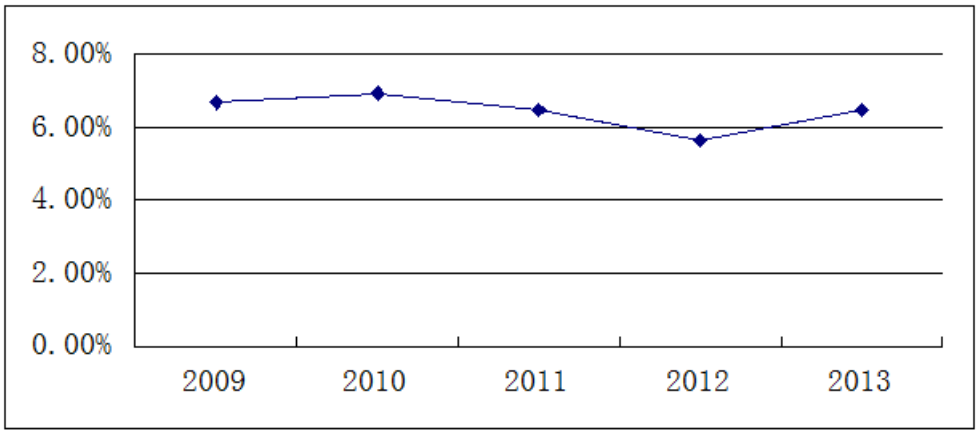
Return on equity (ROE)

Table 4.10 Return on equity

Year	2009	2010	2011	2012	2013
Net profit	14,626	15,877	16,596	15,040	17,666
Equity	219,374	228,883	256,910	266,030	272,559
Return on equity	6.67%	6.93%	6.46%	5.65%	6.48%

Source: own calculation

Figure 4.10 Return on equity



Source: own calculation

Return on equity is calculated use the net income divided by shareholders' equity, which measures the percentage of profit attributable to shareholders of the company capital, to more effectively reflect the company's earnings growth conditions. During 2009 to 2010, the company's ROE increased to 6.93%, it is the highest in those five years. From 2010 to 2013, ROE decreased from 6.93% to 6.48%, changed in the rate of return on equity is not large, it means the profitability of the company was decreased.

4.2.2 Liquidity ratio

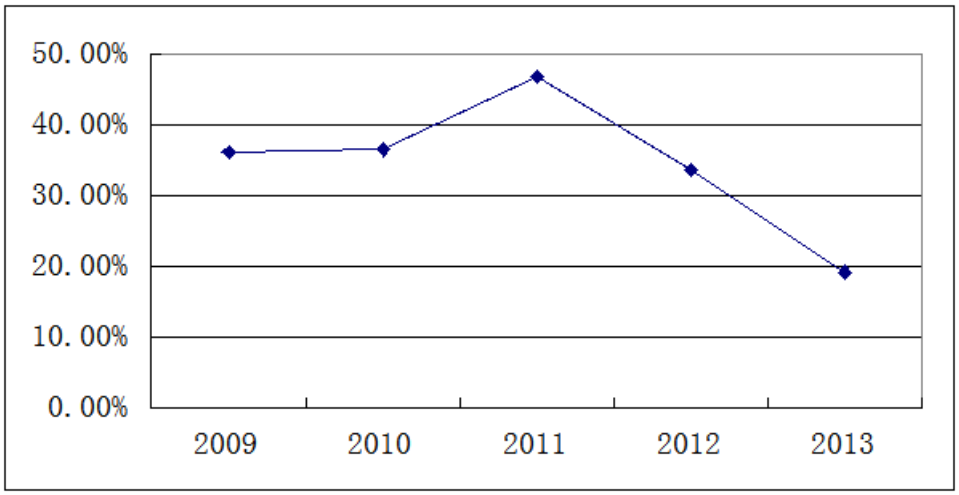
In this part, we calculate to by the formula (2.8),(2.9),(2.10) to calculate the current ratio, quick ratio and the cash ratio.

Table 4.11 Liquidity ratio

Year	2009	2010	2011	2012	2013
Current assets	51,146	44,833	59,581	65,210	37,027
Current liabilities	141,678	122,715	127,262	193,461	192,725
Receivable	16,230	15,923	18,471	18,768	19,326
Cash and cash equivalents	27,526	19,939	27,372	29,982	8,211
Investments	148	849	648	616	1,025
Current ratio	36.10%	36.53%	46.82%	33.71%	19.21%
Quick ratio	30.99%	29.92%	36.53%	25.52%	14.82%
Cash ratio	19.53%	16.94%	22.02%	15.82%	4.79%

Source: own calculation

Figure 4.11 Current ratio

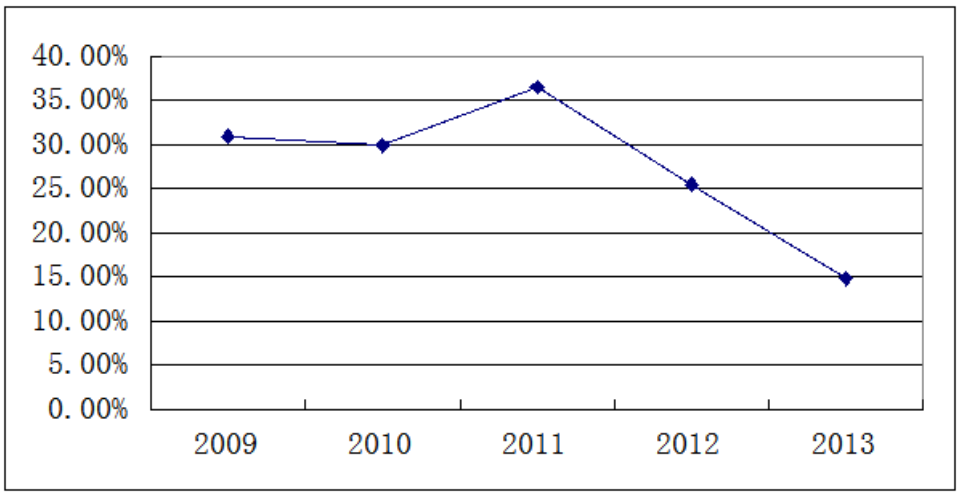


Source: own calculation

We look at figure 4.11. In those five years the current ratio is always greater than 19.21%. Indicating the company to repay short-term debt ability is quite weak.

From 2009 to 2013, the current ratio changed slightly, increased from 0.99 to 1.34. And during 2010, 2011, 2012, those three years the current ratios decreased so fast, the company had a lower ability to repay their current liabilities, and had high risk to current liabilities.

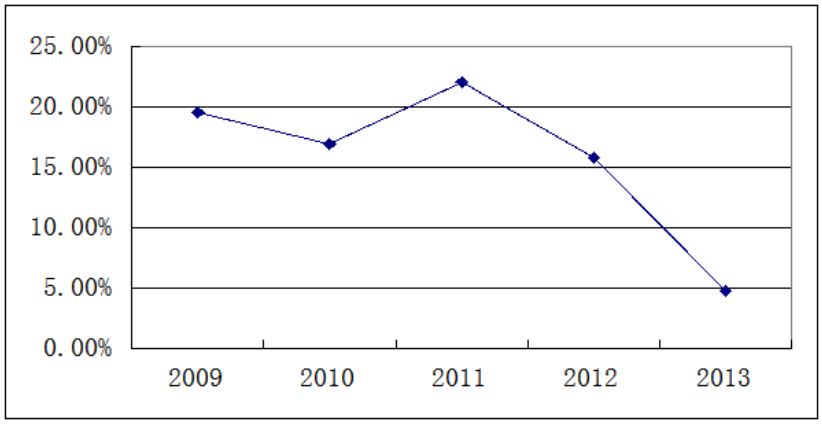
Figure 4.12 Quick ratio



Source: own calculation

In those five years, the quick ratio had a big change, the highest is 36.53%, the lowest 14.82%. The quick ratio is the ability and level of a company to immediately repay the liabilities. Quick ratio has changed very frequently. The company's quick ratio was 14.82% in 2013, this year the company face the highest risk for current liabilities. During 2009 to 2013, the company's quick ratios were less than 1, the company's current liabilities' risk was high.

Figure 4.13 Cash ratio



Source: own calculation

The cash ratio is a ratio the most commonly used in the liquidity ratios. In 2009 and 2013, the company had a weaker ability to repay the short-term liabilities, especially in 2013, the company's cash ratio 4.79%, it was so low, and risk so high.

4.2.3 Solvency ratio

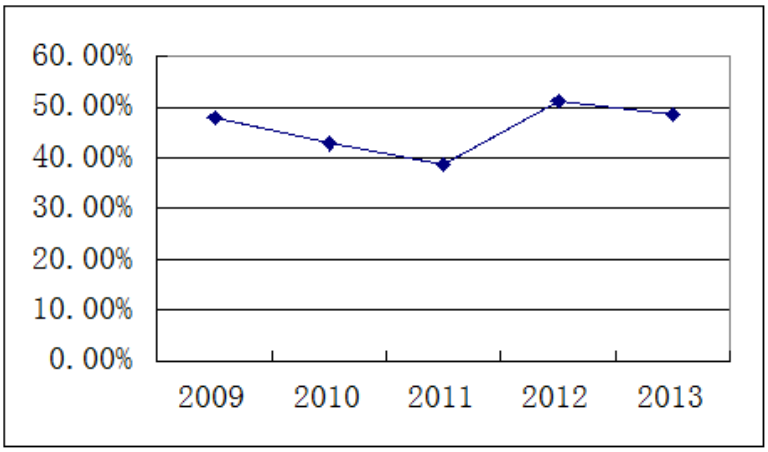
In this part, we calculated the ratio based on the formula (2.11), (2.12), (2.13).

Table 4.12 Solvency ratio

Year	2009	2010	2011	2012	2013
Long-term debt	52,768	42,549	31,150	83,070	62,617
Liability	201,992	171,084	162,241	279,042	257,076
Assets	421,366	399,967	419,151	545,072	529,635
Equity	219,374	228,883	256,910	266,030	272,559
Lease prepayments	5,513	5,373	26,280	25,759	24,990
Profit before taxation	14,626	15,877	16,596	15,040	17,666
Debt-to-assets ratio	47.94%	42.77%	38.71%	51.19%	48.54%
Debt-to-equity ratio	92.08%	74.75%	63.15%	104.89%	94.32%
Financial leverage	1.92	1.75	1.63	2.05	1.94

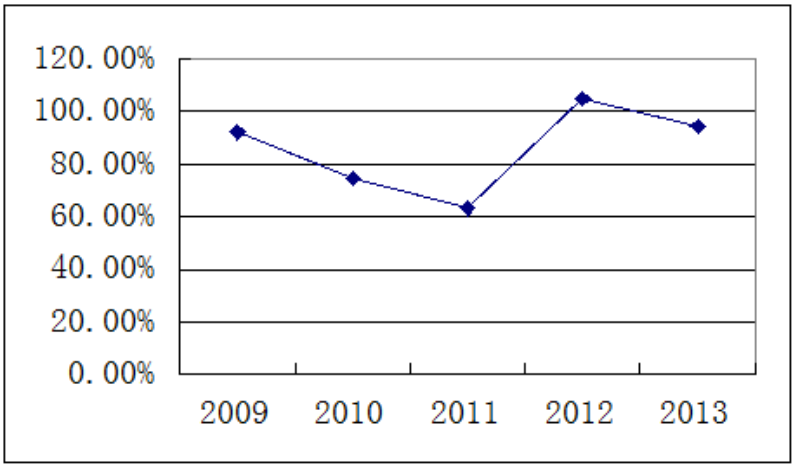
Source: own calculation

Figure 4.14 Debt to assets ratio



Source: own calculation

Figure 4.15 Debt to equity ratio

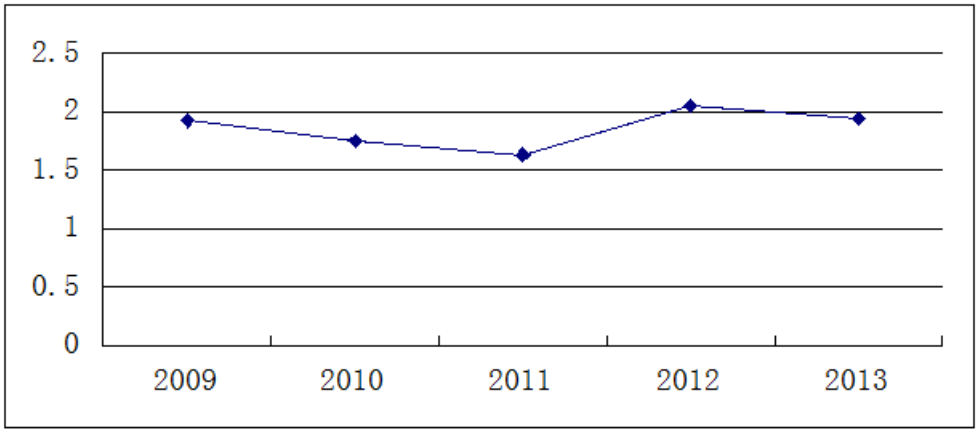


Source: own calculation

From the table 4.12 and figure 4.14 and 4.15 we can look the debt to assets ratio and debt to equity ratio. Debt to assets ratio from 2009 to 2013 was not a big change and very stable. Debt to equity ratio is a measure of the company's financial leverage indicators, namely the company established sources of funds assets in equity and debt in the ratio shows that the calculation method for the company's long-term debt divided by shareholders' equity. During 2009 to 2013, this company debt to equity ratio is the lowest in 2010 and 2011, it means

corporate long-term financial situation as possible, the interests of creditors and secure.

Figure 4.16 Financial leverage



Source: own calculation

And then we can look at the figure 4.16. Financial leverage is due to the existence of the debt resulting from the profit per ordinary share is greater than the interest rate changes in the leverage effect of changes in pre-tax profits. Financial leverage data change is not very obvious. It was form 1.6 to 2.0. This can be explained the company financial risk is stable in those five years.

4.2.4 Activity ratio

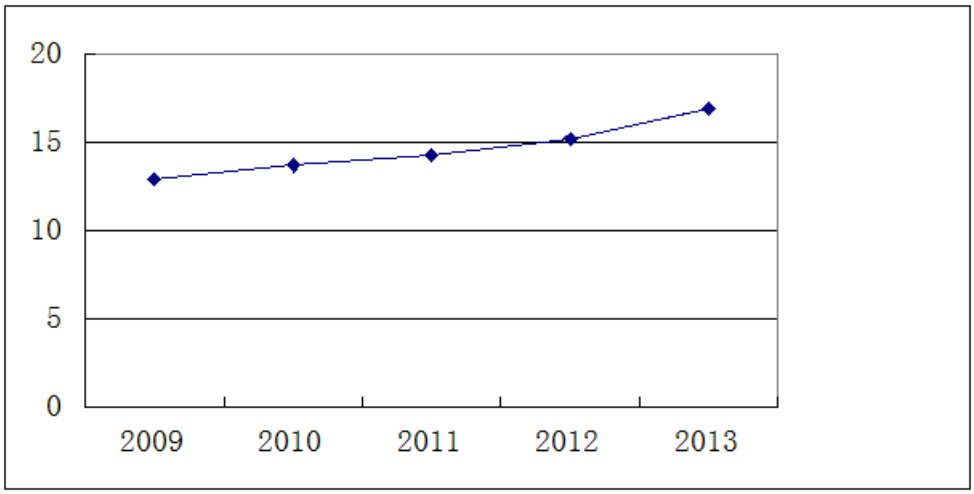
Activity ratio is reflect the efficient use of corporate assets ratio. There are three activity ratios, including receivables turnover, long-term assets turnover, total assets turnover. We use the formula (2.15) and formula(2.16) and formula (2.17) to calculate.

Table 4.13 Receivables turnover

Year	2009	2010	2011	2012	2013
Revenues	209,370	219,864	245,068	283,073	321,584
Average receivable	16,208	16,077	17,197	18,620	19,047
Receivables turnover	12.92	13.68	14.25	15.20	16.88

Source: own calculation

Figure 4.17 Receivables turnover



Source: own calculation

From table 4.13 and figure 4.17, we can find the receivable ratio from 2009 to 2013 Sustained growth, from 12.92 to 16.88, Accounts receivable turnover rate is higher, the shorter the average collection period, indicating that recovery is faster. The company's receivable growth five years, indicate the company financial liquidity is normal and health.

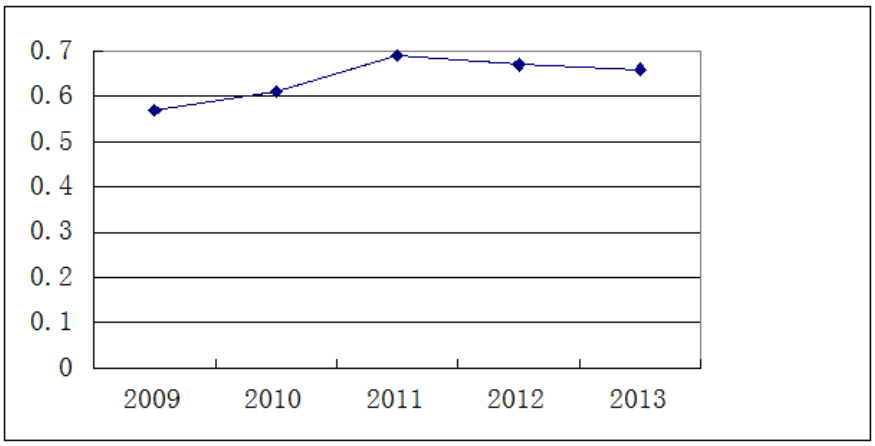
Long-term assets turnover

Table 4.14 Long-term assets turnover

Year	2009	2010	2011	2012	2013
Revenues	209,370	219,864	245,068	283,073	321,584
Average long-term assets	365,220	362,677	357,352	419,716	486,235
Long-term assets turnover	0.57	0.61	0.69	0.67	0.66

Source: own calculation

Figure 4.18 Long-term assets turnover



Source: own calculation

Table 4.14 and figure 4.18 are about the Long-term assets turnover. From 2009 to 2013, and we can find the long-term assets turnover increase from 0.57 to 0.66, 2009 to 2010 increase to 0.61, and then increase to 0.69 in 2011, but in the 2012 and 2013 decrease a little. Overall, are at increased. Long term assets turnover embodies all of the assets during the business turnover from input to output speed, reflecting the quality of management of all assets of the enterprise and efficiency. In those five years, the index increase from 0.57 to 0.66, it means the company situation is very nice.

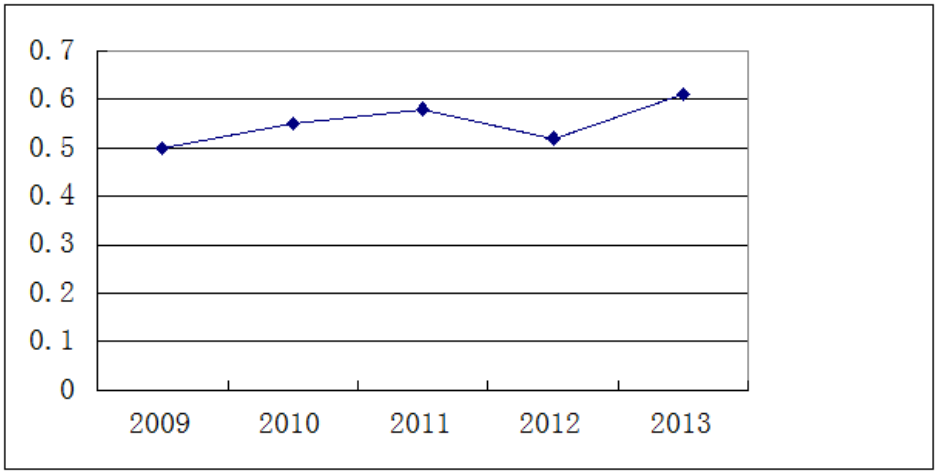
Total assets turnover

Table 4.15 Total assets turnover

Year	2009	2010	2011	2012	2013
Revenues	209,370	219,864	245,068	283,073	321,584
Assets	421,366	399,967	419,151	545,072	529,635
Total assets turnover	0.50	0.55	0.58	0.52	0.61

Source: own calculation

Figure 4.19 Total assets turnover



Source: own calculation

Table 4.18 and table 4.19 reflect the total assets situation from 2009 to 2013, during this period, the index increase from 0.50 to 0.61, especially during 2012-2013, up from 0.52 to 0.61, an increase of 0.11 points, has greatly improved. The higher of the index, indicating that the total assets turnover faster. The stronger sales, higher asset utilization efficiency. The company play and manage good during those five years.

4.3 Dupont analysis

We use the formula (2.18) and (2.19) to calculate this part.

Table 4.16 Dupont analysis profit margin, total assets turnover and financial leverage

Year	2009	2010	2011	2012	2013
Equity	219,374	228,883	256,910	266,030	272,559
Net Profit	14,626	15,887	16,596	15,040	17,666
Revenue	209,370	219,864	245,068	283,073	321,584
Assets	421,366	399,967	419,151	545,072	529,635
Profit margin	7.00%	7.20%	6.80%	5.30%	5.50%
Total assets turnover	0.50	0.55	0.58	0.52	0.61
Financial leverage	1.92	1.78	1.63	2.05	1.94
ROE	6.70%	7.00%	6.50%	5.70%	6.50%

Source: own calculation

According to the table 4.16, we can find the profit margin, decreased from 7.00% to 5.50% during 2009 to 2013, the Total assets turnover increased from 0.50 to 0.61 during 2009 to 2013, the financial leverage did not have a big change, increased from 1.92 to 1.78 during 2009 to 2010, and then decreased from 1.78 to 1.63 during 2010 to 2011, after that, it increased from 1.63 to 2.05 during 2011 to 2012, and it decreased to 1.94 in 2013. ROE increased from 6.70% to 7.00% during 2009 to 2010, we can find the total assets turnover had more contribution, and the profit margin and financial leverage had smaller impact. The same situation occurs in the 2011. After that, the financial had more contribution in 2012, but the total assets turnover had larger impact in 2013. We can make a conclusion, the financial leverage had a larger impact on ROE during 2012 to 2013, but the higher financial leverage, company has more risk, profit margin had smaller effect on ROE, it means company's profit

liability was to go down.

Table 4.17 Dupont analysis tax burden, interest burden, EBIT margin, assets turnover and financial leverage

Year	2009	2010	2011	2012	2013
Equity	219,374	228,883	256,910	266,030	272,559
Net Profit	14,626	15,887	16,596	15,040	17,666
Revenue	209,370	219,864	245,068	283,073	321,584
Assets	421,366	399,967	419,151	545,072	529,635
EBT	19,175	20,908	22,012	19,793	23,088
EBIT	22,658	24,016	24,127	21,186	27,468
Tax burden	76.28%	75.99%	75.40%	75.99%	76.52%
Interest burden	84.63%	87.06%	91.23%	93.42%	84.05%
EBIT margin	10.82%	10.92%	9.85%	7.48%	8.54%
Total assets turnover	0.50	0.55	0.58	0.52	0.61
Financial leverage	1.92	1.78	1.63	2.05	1.94
ROE	6.70%	7.00%	6.50%	5.70%	6.50%

Source: own calculation

According to table 4.17, we decomposed ROE into five equation, tax burden, interest burden, EBIT margin, assets turnover and financial ratio. We also can find ROE dropped only slightly, increased from 6.70% to 6.50% during 2009 to 2013. We can find the tax burden also dropped only slightly during 2009 to 2013, and the EBIT margin had a smaller impact on ROE, this margin decreased from 10.80% to 8.54% during 2009 to 2013. EBIT and assets turnover were the main two reasons lead the ROE decreased in 2012. In 2013, ROE increased to 6.50%,

those five items, in addition to the financial leverage dropped slightly, other four items all increased. The assets turnover had the biggest impact on ROE in those five years.

4.3.1 Influence quantification

In this part, we will use the formula (2.20) and (2.21) to analyze the influence quantification. We will use method of gradual change and method of logarithmic decomposition to analyze the influence quantification.

Table 4.18 Equity, net profit, revenue and assets during 2009 to 2013

Year	2009	2009	2010	2011	2013
Equity	219.374	228.883	256.91	266.03	272.559
Net Profit	14.626	15.887	16.596	15.04	17.666
Revenue	209.37	219.864	245.068	283.073	321.584
Assets	421.366	399.967	419.151	545.072	529.635

Source: own calculation

Table 4.19 ROE absolute change and index of the change

Year	2009	2010	2011	2012	2013
ROE	6.67%	6.93%	6.46%	5.65%	6.48%
Absolute change		0.26%	-0.47%	-0.81%	0.83%
Index of the change		1.039	0.932	0.875	1.147

Source: own calculation

Table 4.18 is some basic items, such as equity, net profit and so one. And the table 4.19 is ROE during 2009 to 2013, including the absolute change, and index of the change, we will use those information next.

Table 4.20 Method of gradual change (2009-2010)

Year	2009	2010	Δa	Δx_{ai}	Order
a1=Ret/Rev	0.07	0.072	0.002	0.19%	1
a2=Rev/Assets	0.497	0.55	0.053	0.73%	2
a3=Assets/Equity	1.92	1.75	-0.17	-0.66%	3
Sum	x	x	x	0.26%	X

Source: own calculation

Table 4.21 Method of logarithmic decomposition (2009-2010)

Year	2009	2010	I_a	Δx_{ai}	Order
a1=Ret/Rev	0.07	0.072	1.029	0.18%	1
a2=Rev/Assets	0.497	0.55	1.107	0.71%	2
a3=Assets/Equity	1.92	1.75	0.911	-0.63%	3
Sum	x	x	x	0.26%	x

Source: own calculation

From table 4.20 and table 4.21, during 2009 to 2010, the net profit margin increased by 0.002, the assets turnover increased by 0.003, the financial leverage decreased 0.17. The net profit margin and the assets turnover changed slightly, and the financial leverage has the biggest change.

Table 4.22 Method of gradual change (2010-2011)

Year	2010	2011	Δa	Δx_{ai}	Order
a1=Ret/Rev	0.072	0.068	-0.004	-0.38%	1
a2=Rev/Assets	0.55	0.585	0.035	0.41%	3
a3=Assets/Equity	1.75	1.63	-0.12	-0.50%	2
Sum	x	X	X	-0.47%	X

Source: own calculation

Table 4.23 Method of logarithmic decomposition (2010-2011)

Year	2010	2011	I_a	Δx_{ai}	Order
a1=Ret/Rev	0.072	0.068	0.945	-0.36%	1
a2=Rev/Assets	0.55	0.585	1.064	0.38%	3
a3=Assets/Equity	1.75	1.63	0.931	-0.49%	2
Sum	x	X	X	-0.47%	X

Source: own calculation

According to the table 4.22 and table 4.23, during 2010 to 2011. The net profit margin decreased 0.004, the assets turnover increased 0.035, and the financial leverage decreased 0.12. The ROE change within the normal range. And the total assets turnover had a plus impact on ROE, the net profit margin and financial leverage were decreased during 2001 to 2012.

Table 4.24 Method of gradual change (2011-2012)

Year	2011	2012	Δa	Δx_{ai}	Order
a1=Ret/Rev	0.068	0.053	-0.015	-1.43%	2
a2=Rev/Assets	0.585	0.519	-0.066	-0.53%	1
a3=Assets/Equity	1.63	2.05	0.42	1.16%	3
Sum	x	X	x	-0.81%	X

Source: own calculation

Table 4.25 Method of logarithmic decomposition (2011-2012)

Year	2011	2012	I_a	Δx_{ai}	Order
a1=Ret/Rev	0.068	0.053	0.779	-1.41%	2
a2=Rev/Assets	0.585	0.519	0.887	-0.53%	1
a3=Assets/Equity	1.63	2.05	1.258	1.13%	3
Sum	x	X	x	-0.81%	X

Source: own calculation

From those two tables, this table is from 2011 to 2012. The net profit margin decreased 0.015, and the total assets turnover decreased 0.066, and the financial leverage increased 0.42, financial leverage also was the biggest change, it was most important to ROE during 2011 to 2012.

Table 4.26 Method of gradual change (2012-2013)

Year	2012	2013	Δa	Δx_{ai}	Order
a1=Ret/Rev	0.053	0.055	0.002	0.21%	3
a2=Rev/Assets	0.519	0.607	0.088	0.99%	2
a3=Assets/Equity	2.05	1.94	-0.11	-0.37%	1
Sum	x	X	x	0.83%	X

Source: own calculation

Table 4.27 Method of logarithmic decomposition (2012-2013)

Year	2012	2013	I_a	Δx_{ai}	Order
a1=Ret/Rev	0.053	0.055	1.038	0.22%	3
a2=Rev/Assets	0.519	0.607	1.17	0.99%	2
a3=Assets/Equity	2.05	1.94	0.946	-0.38%	1
Sum	x	X	x	0.83%	X

Source: own calculation

Table 4.26 and table 4.27 are is about the method of gradual change 2012 to 2013. The net profit margin decreased 0.002, the assets turnover decreased 0.088, and the financial leverage decreased 0.11. We can find all of them changes to the very small, the ROE within a normal range and increased 0.83% during 2012 to 2013.

5 Conclusion

In this thesis, the goal was to analyze the company's financial reports and making conclusions about China Telecom Company's financial situation during 2009 to 2013.

The fourth part is the most significant part in this thesis, we evaluation of financial situation of the company and make some conclusions.

Firstly, through common-size, we can find company's revenue and profit for the year growth so fast during 2009 to 2013, and the total operating expenses increased faster than net profit and revenue. But on the financial cost, we can see that financial costs continue to decrease during 2009 to 2013, and the lowest was 0.55% in 2012, the company achieved a greater improvement in the control of the financial costs.

Secondly, through financial ratio analysis, we know the company's profitability did not have a significant growth, company's operating profit margin has decreased from 10.80% to 8.54% during 2009 to 2013, especially in 2012, the company's operating profit margin fell to 7.48%, the lowest point in those five years. And the company faced high current liabilities risk.

Thirdly, from Dupont analysis, ROE almost no changed during 2009 to 2013, but the financial leverage had a positive and growing impact on ROE. China Telecom is China's third largest mobile communications company. During the five years 2009-2013, the company has developed rapidly, financial condition was well. Through a series of financial analysis, we can write the following conclusions.

Overall, the company's assets situation was very stable, but in a series of indicators such as return on assets decreased slightly, but does not affect the company's financial position. We make conclusions, China Telecom had healthy financial situation during 2009 to 2013, it developed very fast. And it will be develop faster in the future, because China Telecom is a state owned company, it has so many resources.

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List of Abbreviation

EAT……..Earnings after taxes

EBT……..Earnings before taxes

EBIT Earnings before interest and taxes

ROA Return on assets

ROE Return on equity

R&D Research and development

CDMA Code Division Multip

WCDMA Wideband Code Division Multiple Access

Declaration of Utilization of Results from a Diploma (Bachelor) Thesis

Herewith I declare that

- I am informed that Act No. 121/2000 Coll. – the Copyright Act, in particular, Section 35 – Utilization of the Work as a Part of Civil and Religious Ceremonies, as a Part of School Performances and the Utilization of a School Work – and Section 60 – School Work, fully applies to my diploma (bachelor) thesis;
- I take account of the VSB – Technical University of Ostrava (hereinafter as VSB-TUO) having the right to utilize the diploma (bachelor) thesis (under Section 35(3)) unprofitably and for own use ;
- I agree that the diploma (bachelor) thesis shall be archived in the electronic form in VSB-TUO's Central Library and one copy shall be kept by the supervisor of the diploma (bachelor) thesis. I agree that the bibliographic information about the diploma (bachelor) thesis shall be published in VSB-TUO's information system;
- It was agreed that, in case of VSB-TUO's interest, I shall enter into a license agreement with VSB-TUO, granting the authorization to utilize the work in the scope of Section 12(4) of the Copyright Act;
- It was agreed that I may utilize my work, the diploma (bachelor) thesis, or provide a license to utilize it only with the consent of VSB-TUO, which is entitled, in such a case, to claim an adequate contribution from me to cover the cost expended by VSB-TUO for producing the work (up to its real amount).

Ostrava dated 12. 06. 2014

吴恺 Kai Wu

Student's name and surname

List of annexes

Annex 1 Income statement

Annex 2 Balance sheet

Annex 3 Cash flow statement

Annex 1 Income statement

Figures in millions , currency is CNY	2009	2010	2011	2012	2013
Income statement					
Operating revenues	209 370	219 864	245 068	283 073	321 584
Operating expenses					
Depreciation and amortisation	-52 243	-51 656	-51 233	-49 655	-69 083
Network operations and support	-42 903	-47 288	-52 925	-66 003	-53 102
Selling, general and administrative	-40 507	42 130	-48 746	-63 076	-70 448
Personnel expenses	-32 857	-35 529	-39 167	-42 812	-46 723
Other operating expenses	-17 449	-19 106	-28 870	-40 341	-54 760
Total operating expenses	-186 712	-195 848	-220 941	-261 887	-294 116
Operating profit	22 658	24 016	24 127	21 186	27 468
Net finance costs	-4 375	-3 600	-2 254	-1 564	-5 153
Investment income	791	361	40	93	670
Share of profits of associates	101	131	99	78	103
Profit before taxation	19 175	20 908	22 012	19 793	23 088
Income tax	-4 549	-5 031	-5 416	-4 753	-5 422
Profit for the year	14 626	15 877	16 596	15 040	17 666
Other comprehensive income for the year:					
Change in fair value of available-for-sale equity securities	538	132	-205	-228	414
Deferred tax on change in fair value of available-for-sale equity securities	-120	-48	51	57	-104
Exchange difference on translation of financial statements of subsidiaries outside mainland China			-103	-3	-79
Other comprehensive income for the year, net of tax	416	11	-257	-174	236
Total comprehensive income for the year	15 042	15 888	16 339	14 866	17 902
Profit attributable to:					
Equity holders of the Company			16 500	14 925	17 545
Profit for the year	14 763	15 877	16 596	15 040	17 666
Total comprehensive income attributable to:					
Equity holders of the Company	14 422	15 759	16 243	14 751	17 781

Non-controlling interests	279	118	96	115	121
Total comprehensive income for the year	15 042	15 888	16 339	14 866	17 902
Basic earnings per share	0,18	0	0,2	0,18	0,22
Weighted average number of shares (in millions)	80 932	80 932	80 932	80 931	80 932

Annex 2 Balance sheet

Figures in millions , currency is CNY					
Balance sheet	2009	2010	2011	2012	2013
ASSETS					
Non-current assets					
Property, plant and equipment, net	283,628	273,845	268,904	373,743	372,222
Construction in progress	11,475	14,243	18,448	32,484	43,806
Lease prepayments	5,513	5,373	26,280	25,759	24,990
Intangible assets	12,201	9,852	7,715	9,214	7,662
Investments in subsidiaries	8,555	5,272	-	-	6,015
Interests in associates	736	777	985	1,016	564
Investments	148	849	648	616	1,025
Deferred tax assets	12,815	10,679	3,070	2,922	2,647
Other assets	5,272	4,367	3,602	4,190	3,800
Total non-current assets	370,220	355,134	359,570	479,862	492,608
Current assets					
Inventories	1,739	2,000	4,843	5,928	3,203
Income tax recoverable	1,711	1,878	2,425	1,505	306
Accounts receivable, net	16,230	15,923	18,471	18,768	19,326
Prepayments and other current assets	3,805	4,720	4,666	6,297	5,951
Time deposits with original maturity over three months	135	373	1,804	2,730	30
Cash and cash equivalents	27,526	19,939	27,372	29,982	8,211
Total current assets	51,146	44,833	59,581	65,210	37,027
Total assets	421,366	399,967	419,151	545,072	529,635

Liabilities and equity					
Current liabilities					
Short-term debt	51,650	20,675	9,187	6,523	27,578
Current portion of long-term debt	1,487	10,352	11,766	10,212	20,072
Accounts payable	32,183	37,620	44,359	68,844	78,199
Accrued expenses and other payables	52,713	51,225	59,375	105,736	65,473
Income tax payables	215	198	482	492	201
Current portion of finance lease obligations	18	–	-		1
Current portion of deferred revenues	3,412	2,645	2,093	1,654	1,201
Total current liabilities	141,678	122,715	127,262	193,461	192,725
Net current liabilities	-90,532	-77,882	-67,681	-128,251	-155,698
Total assets less current liabilities	279,688	277,252	291,889	351,611	336,910
Non-current liabilities					
Long-term debt	52,768	42,549	31,150	83,070	62,617
Deferred revenues	5,045	3,558	2,712	1,791	1,229
Deferred tax liabilities	2,501	2,262	1,117	717	505
Total non-current liabilities	60,314	48,369	34,979	85,581	64,351
Total liabilities	201,992	171,084	162,241	279,042	257,076
Equity					
Share capital	80,932	80,932	80,932	80,932	80,932
Reserves	138,442	147,951	175,190	184,137	191,627
Total equity	219,374	228,883	256,910	266,030	272,559
Total liabilities and equity	421,366	399,967	419,151	545,072	529,635

Annex 3 Cash flow

Figures in millions , currency is CNY					
Cash flow	2009	2010	2011	2012	2013
Net cash from operating activities	74,988	75,571	73,009	70,667	88,351
Cash flows used in investing activities					
Capital expenditure	-40,311	-41,597	-48,495	-50,028	-70,921
Purchase of investments	-23	-41	-6	–	
Lease prepayments	-94	176	-60	-133	-111
Proceeds from disposal of property, plant and equipment	393		3,234	2,696	1,538
Proceeds from disposal of lease prepayments	380		487	255	360
Proceeds from disposal of investments	735	1	1,040	-	
Net cash outflow from disposal of a subsidiary			-	-116	512
Proceeds from return of investments			10	–	
Purchase of time deposits with maturity over three months	-442	-1,968	-1,804	-2,730	
Maturity of time deposits with maturity over three months	379	442	1,968	1,804	
Payment for acquisition of a subsidiary			-11	–	
Net cash used in investing activities	-43,255	-45,734	-43,637	-48,252	-107,948
Cash flows used in financing activities					
Proceeds from bank and other loans	88,958	53,518	23,876	9,702	54,983
Repayment of bank and other loans	-111,084	-86,001	-45,329	-24,133	-44,053
Payment of dividends	-6,493	-5,608	-6,174	-5,625	-5,433

Payment for acquisition of non-controlling interests			-1	-	
Payment for the acquisition price of the Fifth Acquisition			-27	-29	
Payment for the acquisition price of the Sixth Acquisition			–	-48	
Distribution to China Telecom Group – (3)			-3	-	
Net cash contributions/(distributions) to non-controlling interests	-908	-100	-65	331	142
Net cash used in financing activities	-24,793	-38,771	-27,723	-19,802	5,637
Net increase in cash and cash equivalents	6,940	-8,934	1,649	2,613	-13,960
Cash and cash equivalents at 1 January	27,866	34,804	25,824	27,372	30,099
Effect of changes in foreign exchange rate	-2	-46	-101	-3	-69
Cash and cash equivalents at 31 December	34,804	25,824	27,372	29,982	16070